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Directorate of
Intelligence

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International Economic & Energy Weekly

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14 February 1986

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International Economic & Energy Weekly [redacted] 25X1

Synopsis

1 **Perspective—Incentives for More Radical Debtor Action** [redacted] 25X1

We believe increased incentives exist for Mexico and other major debtors, separately or as a group, to take radical action to reduce debt service obligations. [redacted] 25X1

3 **Libya: Economy Under Siege** [redacted] 25X1

The recent drop in world oil prices and US economic sanctions are the latest jolts to hit the Libyan economy. The sharp drop in oil prices will leave Tripoli even less maneuvering room to manage the economy this year. [redacted] 25X1

7 **Indonesia: Coping With Low Oil Prices** [redacted] 25X1

Despite recent sharp declines in world oil prices, we believe Jakarta will continue to meet its payment obligations and protect its strong international credit rating. In our view, Jakarta would have to reorient its development strategy towards more labor-intensive programs to keep the country's severe unemployment problem in check. [redacted] 25X1

13 **Key LDC Debtors: 1985 Trade Performance and Outlook for 1986** [redacted] 25X1

Key LDC debtors recorded a dismal trade performance in 1985. For this year, we forecast higher export earnings for most non-oil-exporting key debtors, but oil exporters will continue to suffer from declining petroleum prices. [redacted] 25X1

17 **USSR–Eastern Europe: New CEMA S&T Program** [redacted] 25X1

The CEMA Complex Program for Scientific and Technical Progress Until the Year 2000 is a blueprint for cooperation in science and technology to spur economic growth throughout the region. The twin goals of technological modernization and self-sufficiency, however, may well turn out to be inherently contradictory, which will hamper the implementation of the program. [redacted] 25X1

21 **Romania-USSR: Poor Prospects for Trade Growth in 1986-90** [redacted] 25X1

The Romanian-Soviet trade protocol for 1986-90 and the new five-year science and technology cooperation agreement suggest a significant strengthening of economic ties between the two countries. There is reason, however, to question whether trade will reach the levels envisioned. [redacted] 25X1

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International Economic & Energy Weekly [redacted] 25X1

14 February 1986

Perspective

Incentives for More Radical Debtor Action [redacted] 25X1

[redacted] Mexico is fast approaching its position of August 1982 when it was unable to meet its debt obligations. On that occasion, quick and cooperative actions by Mexican finance officials, the US Government, and commercial creditors averted a major financial or political crisis. We see substantial differences in the current situation, however, and believe greatly increased incentives exist for Mexico or other major debtors, separately or as a group, to take radical action to reduce debt service obligations. [redacted] 25X1

For most debtors, the perceived economic benefits of continuing with the current debt strategy have declined significantly: 25X1

- Interest payments have far exceeded funds available under new loans, making Third World debtors net exporters of capital.
- Total foreign debt has increased, and—despite higher export earnings—debt-to-export ratios have risen.
- The share of export earnings to pay interest on the debt has declined marginally at best. 25X1
- Investment and savings levels have fallen.
- Per capita incomes have regressed to levels of nearly a decade ago. [redacted]

In addition, after three years of austerity, LDC leaders face worrisome political pressure from both powerful elites and the general public for a change in economic and debt policies. Last week a crowd—estimated at 50,000 people by the press—rallied in Mexico City to demand a moratorium on debt repayments. More significantly, labor czar Fidel Velasquez—who has supported government economic policies—publicly declared that the government needed to put internal social needs before debt servicing obligations. In Argentina, a general strike by Peronist labor unions last month was widely supported and included the demand for a moratorium on debt repayments. Brazilian President Sarney has reaped considerable political benefit from his Finance Minister's tough stance in dealing with the IMF on Brazil's current economic program. Moreover, press [redacted] reporting indicate the 25X1 growing participation in economic policy debates by LDC officials with more nationalist philosophies. [redacted] 25X1

Finally, we believe the increased political dimension of the debt problem will make bilateral negotiations between debtors and commercial creditors more difficult than in the past. Both sides are not as likely to push for agreement because they believe the US Government will come to the rescue. Moreover, the Cartagena group gives Latin debtors an additional mechanism to pressure Washington to recognize their political and economic problems and to provide debt relief. [redacted] 25X1

We are concerned that, taken together, these factors are leading Third World leaders to try to obtain immediate political gain and economic benefits by reducing or suspending interest payments, thereby forcing Washington and bank creditors to assume a greater share of the costs this time around. [redacted] 25X1

[redacted] 25X1

[redacted] Bankers also suspect de la Madrid may lead an effort at the 27 February meeting of the Cartagena group to demand an interest payment cap for all Latin American debtor nations. [redacted] 25X1 25X1

In our judgment, more concrete measures designed to effectively reduce the Third World debt burden will be needed to defuse the potential for more radical debtor action on interest payments. Even if new loans or rescheduling agreements are concluded in the coming weeks, Mexican and Argentine leaders, in particular, probably will experience rising frustration this year in managing their economies. As a result, we believe that they will be tempted to link deep-seated economic problems to their debt burden and to what they perceive as the need for global trade and monetary reform. In such an environment there may be an opportunity for linking concessions on interest payments to a commitment by debtor governments to undertake politically risky structural reforms. [redacted] 25X1

[redacted] 25X1

Libya: Economy Under Siege [redacted] 25X1

The recent drop in world oil prices and US economic sanctions are the latest jolts to hit the Libyan economy. They come at a time of unprecedented popular discontent over Libyan leader Qadhafi's misguided economic policies and penchant for costly foreign adventures. The freeze on Libyan assets in US banks has deprived Tripoli of access to approximately $700 million, and closed off an important channel for revenues from the sale of Libyan crude. The sharp drop in oil prices—unless accompanied by an offsetting increase in liftings—will leave Tripoli even less maneuvering room to manage the economy this year. A dip in oil prices to $15 per barrel would confront Qadhafi with an unmanageable cash shortage unless he makes politically risky cuts in consumer imports or swallows his pride and borrows on the international market. Further reductions in imports almost certainly would increase the chances that the military will decide to move against Qadhafi. [redacted]

Living With Less

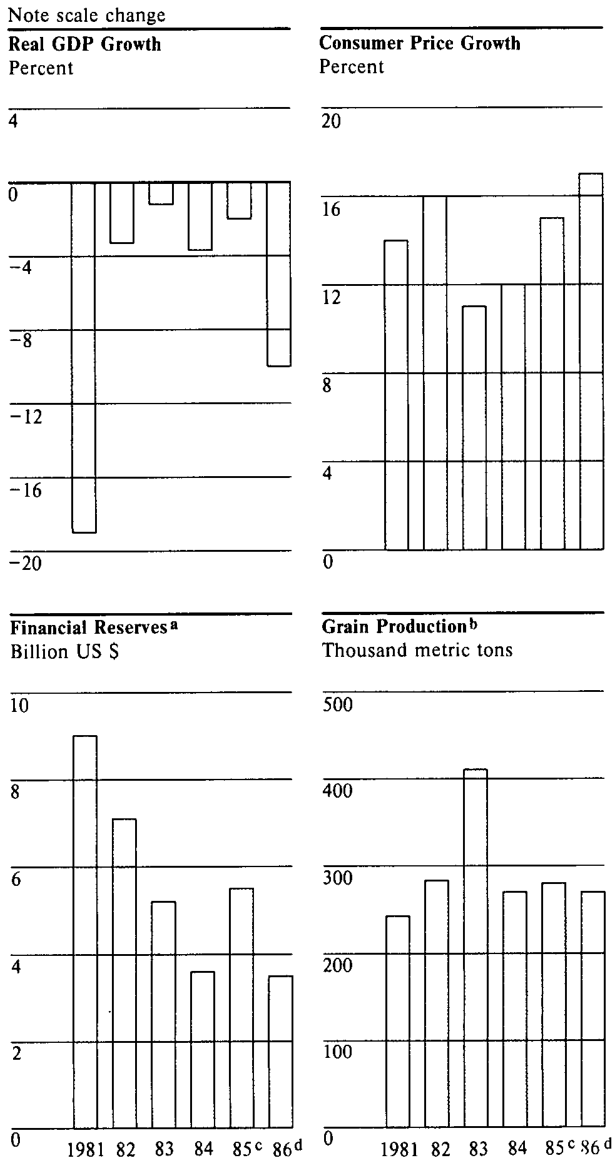
Qadhafi's speech last September calling for a greater public sacrifice underscores growing concern in Tripoli over the poor state of the economy. Although oil revenues have stabilized at about $11 billion over the past two years, this is down by almost half from the 1980 level. Unlike previous speeches extolling revolutionary successes, the Libyan leader urged the people to eat camel meat and wild game rather than imported lamb and beef. Qadhafi's uneasiness is supported by recent statistics that suggest real GDP fell 2 percent last year, the fifth consecutive year of decline. Per capita GDP is now below the 1977 level and inflation is at a near-record 15 percent. [redacted]

Living conditions for the average Libyan continue to deteriorate. [redacted] shelves in most government-operated supermarkets are empty or poorly stocked except on traditional holidays. Food lines are longer and more contentious as people search for basic staples. Hoarding has become a way of life for most and a thriving black market has evolved, despite numerous attempts to control such activity. Moreover, the quality of health care and education—hallmarks of Qadhafi's revolution—has fallen off sharply. While few starve in Libya, most agree that Qadhafi's economic policies have failed. [redacted] 25X1

The government budget, foreign workers, and foreign contractors have all been casualties of the revenue squeeze. Development spending was down by 20 percent, and the administration budget had to be cut for only the second time since 1969. Actual spending levels probably are as much as 40 percent lower, however, based on import figures and press reporting. Moreover, [redacted] the expulsion of 150,000 foreign workers last year was intended to save $1 billion in worker remittances. To shore up Tripoli's foreign exchange position, payments to foreign suppliers were further delayed. The slowdown probably pushed Libyan commercial arrears to an estimated $4 billion, straining relations with several of Libya's leading trading partners, including Moscow. [redacted] 25X1 25X1 25X1 25X1 25X1

Nevertheless, work on priority development projects is continuing. [redacted] state ministries decided last summer to finish those projects that were more than fifty percent complete and to cancel or delay others under the 1986-90 Plan, [redacted] Exceptions to the decision include Qadhafi's priority Great Manmade River project, an iron mill at Misratah, and an aluminum smelter at Zuwara. Qadhafi also has attached increased importance to agricultural development to limit dependence on Western food supplies. One benefit 25X1 25X1 25X1 25X1 25X1

Libya: Economic Indicators, 1981-86



[a] End of period; excluding 3.6 million ounces of gold.
[b] Includes wheat and barley.
[c] Estimated.
[d] Projected.

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of the development slowdown has been that it limited the impact of the expulsion of foreign workers. 25X1

Defense spending also has felt the pinch. Military imports probably fell to $1.7 billion last year from their peak of almost $3 billion in 1982. Most of this decline reflects the completion of deliveries under existing contracts. Other defense-related spending has remained relatively stable. Qadhafi depends heavily on the military and security forces to stay in power and knows that they pose the greatest threat to his regime. As a result, further cuts in defense spending are not likely. 25X1

Qadhafi's draconian measures to stem the economic slide have had some positive effects. The sharp cut in imports and foreign workers, coupled with oil exports slightly above Libya's OPEC production quota of 990,000 b/d, probably produced a small surplus in the current account for the first time since 1982. These factors and delayed payments to foreign contractors helped push foreign exchange reserves to $5.5 billion by yearend—10 months of imports—from a low of $3.3 billion in January 1985. 25X1

US Economic Sanctions

The freeze on Libyan financial assets has had the greatest impact among the various US economic restrictions imposed last month. Libya lost access to as much as 13 percent of its foreign exchange reserves and has had increased trouble in servicing contract payments—especially to oil companies. Moreover, Tripoli's attempts to circumvent US sanctions have met with limited success. Other Arab states so far have offered little more than vocal support. 25X1

The impact of US sanctions on the oil sector is small. We estimate that Libya continues to produce 1.1-1.2 million b/d of oil. While most US oil workers have left Libya, domestic oil workers and other foreign technicians probably can maintain

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Political Strains of Austerity

For the most part, Qadhafi is a judicious political calculator. He has often been able to respond flexibly to his political and economic troubles, tactically changing course without losing sight of his revolutionary goals. When he perceives threats to himself or that his revolution is failing, however, Qadhafi's usually pragmatic decisionmaking can falter. We judge that Qadhafi is now in such a strained period, and flawed decisionmaking could well compound his economic problems. [redacted]

Qadhafi has increasingly surrounded himself with people whom he believes he can trust—relatives, fellow tribesmen, or young radicals committed to his ideology. [redacted] *professional officials in key positions—particularly the security services—are being replaced by young extremists who have grown up under Qadhafi and are considered ideologically sound. Qadhafi also has staged rallies in tribal areas to convince both internal and external opponents that he continues to enjoy popular support. For example, this year, for the first time, Qadhafi celebrated the anniversary of his coup in the relatively secure city of Sebha. Instead of the usual displays of military units, he featured parades of Revolutionary Committee cadre. In our view, this relects Qadhafi's distrust of the Army's loyalty and was intended to demonstrate to his adversaries that the Libyan revolution would continue even if he were personally eliminated.* [redacted] 25X1

At the same time there has been increased infighting among senior officials as they prepare themselves for any succession struggle. [redacted] 25X1 [redacted] 25X1 *high-level officers, including Libya's number-two man, Abd al-Salam Jallud, are building up their networks of clients and supporters. In our view, this jockeying for political position reflects a lack of confidence in Qadhafi's viability and threatens the unity of the regime.* [redacted] 25X1 25X1 25X1 25X1

Qadhafi's popular base will continue to erode as long as he responds to the challenges to his regime by closetting himself with a diminishing circle of loyal revolutionaries. Qadhafi is almost entirely dependent on the continued loyalty and competence of the Revolutionary Committees and the security services to preserve his position. At present, these institutions appear capable of protecting him. Nonetheless, political and economic trends in Libya are running against Qadhafi, and we assess his chances of surviving until 1987 as little better than even. [redacted] 25X1

production and possibly increase it by several hundred thousand barrels per day. [redacted] 25X1 [redacted] spare parts are not a problem because stocks are adequate or can be aquired through non-US suppliers. Moreover, [redacted] completion of other Libyan development programs, including the Great Manmade River project, will be largely unaffected because of the substantial participation of West European and South Korean firms that can easily replace US firms. [redacted] 25X1

Outlook

Soft oil market conditions pose the greatest threat to the economy and probably the regime. Tripoli loses \$400 million annually for each one dollar decline in oil prices at the current export volume. Conversely, every 100,000-b/d drop in oil exports costs the regime \$730 million at the current \$20 per barrel price. [redacted] 25X1 25X1 25X1

Libya: Current Account Trends, 1981-86

Billion US $

	1981	1982	1983	1984	1985	1986
Current account balance	**−5.3**	**0.6**	**−1.0**	**−1.5**	**0.6**	**−1.0**
Trade balance	−1.3	4.3	3.5	3.1	4.1	2.5
Exports (f.o.b.)	15.2	13.6	11.9	11.2	11.0	8.8 [a]
Imports (f.o.b.)	16.5	9.3	8.4	8.1	7.0	6.3 [b]
Non-Communist	13.0	5.8	5.9	5.9	4.9	4.7
Military	0.8	1.1	0.6	0.4	0.5	0.5
Communist, nonmilitary	1.8	1.7	1.3	1.0	0.9	0.7
Soviet	0.3	0.3	0.4	0.2	0.1	0.1
Other	1.5	1.4	0.9	0.8	0.7	0.5
Communist, military	1.8	1.9	1.3	1.3	1.2	1.0
Soviet	1.2	1.0	0.7	0.8	0.7	0.6
Other	0.6	0.9	0.6	0.5	0.5	0.4
Net services	−3.6	−3.1	−4.2	−4.1	−3.3	−3.2
Freight and insurance	−2.0	−1.1	−1.0	−1.0	−0.8	−0.7
Investment income receipts	1.5	1.1	0.8	0.4	0.3	0.2
Other	−3.2	−3.1	−3.9	−3.6	−2.8	−2.7
Grants	−0.4	−0.5	−0.4	−0.4	−0.4	−0.3
Change in reserves	−4.1	−1.9	−1.8	−1.6	2.1	−2.0

[a] Projected, assuming average exports of 1.2 million b/d at $20 per barrel.
[b] Based on additional reductions in military- and project-related imports.

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A *$20 per barrel* oil price probably would have little impact on the economy during the next year if current export levels can be maintained. Assuming no change in imports, Tripoli would face a projected current account deficit of roughly $1.5 billion this year. Such a shortfall could be sustained by drawing down accessible foreign exchange reserves.

An average price of *$15 per barrel* would force Tripoli to make some difficult choices. Tripoli would face a projected current account deficit of $3.0-3.5 billion this year, equal to about 70 percent of available foreign exchange reserves. Hefty import reductions, however, almost certainly would hit both civilian goods and military equipment as well as priority projects. Any increased popular dissatisfaction could generate renewed coup plotting and force Qadhafi to rely even more heavily on his security forces to remain in power. 25X1

A steep drop in oil prices also limits Qadhafi's ability to purchase support by reordering economic priorities and channeling the savings into the consumer sector. In response, he could step up oil production to boost export revenues and purchase basic commodities to ease mounting tensions over living standards. An increase of 140,000 b/d in oil exports at $20 per barrel would boost revenues by the amount of import reductions last year. Such volume, however, would be difficult to sustain under current market conditions without depressing prices further. 25X1

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Indonesia: Coping With Low Oil Prices

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Despite recent sharp declines in world oil prices, we believe continued fiscal austerity and a competitive exchange rate policy would enable Jakarta to continue to meet its payment obligations on its $37 billion foreign debt and protect its strong international credit rating. The challenge facing the Soeharto regime in the coming years will be finding policies that will provide politically acceptable rates of economic growth. In our view, Jakarta would have to reorient its development strategy toward more labor-intensive programs to keep the country's severe unemployment problem in check. Political inertia, corruption, and inefficiency, however, may undermine such a strategy. Under these circumstances, growing unemployment could be a spark for more social tension than in recent years, and force Jakarta to abandon some of the strictures of foreign debt management that have served it well thus far.

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Econometric Simulation Assumptions

Our econometric simulations of the Indonesian economy through 1989 under alternative oil price scenarios assume that Jakarta will continue its present course of debt management through fiscal austerity, tax policy, financial reform, and competitive exchange rate adjustments. We have assumed that the value of the rupiah against the US dollar is allowed to depreciate by an average of 7 percent annually through the end of the decade, and we project a modest real increase in total capital expenditures over the period. Moreover, we anticipate 10-percent annual growth in nonoil exports over the next four years, and a global economic recovery by mid-to-late 1987.

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Recent Developments

Since 1981, Indonesia's external accounts have reeled under the pressure of falling oil prices. In just four years, petroleum receipts have fallen nearly 25 percent, resulting in $17 billion in cumulative current account deficits. Moreover, under the weight of austerity, economic growth has declined from an annual average of 8 percent in 1973-81 to only 3 to 4 percent during 1982-85, resulting in a dramatic increase in urban unemployment—unofficially estimated in excess of 20 percent. Jakarta remains concerned that the economy will not be able to grow fast enough to absorb the two million new entrants to the labor force each year.

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Complicating the near-term outlook, Indonesia's foreign debt obligations have passed the point where traditional surpluses in merchandise trade are sufficient to ensure manageable current account deficits in light of large transfer and service deficits. In addition, debt service payments are estimated to have increased 40 percent since 1982 to almost $6 billion last year, surpassing inflows of foreign assistance.

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What Different Oil Prices Mean

Oil prices are central to Indonesia's economic and financial prospects and its ability to service its burgeoning foreign debt—the fifth largest among developing countries. Oil and natural gas earnings account for about 75 percent of total exports. In order to assess the extent of Jakarta's vulnerability to creditor concerns and to actual strains on its external accounts, we have examined two possible oil price scenarios for Indonesian crude—$20 and $15 per barrel—through the end of the decade. We assume in each scenario that Jakarta continues the

[1] This article summarizes a forthcoming intelligence assessment.

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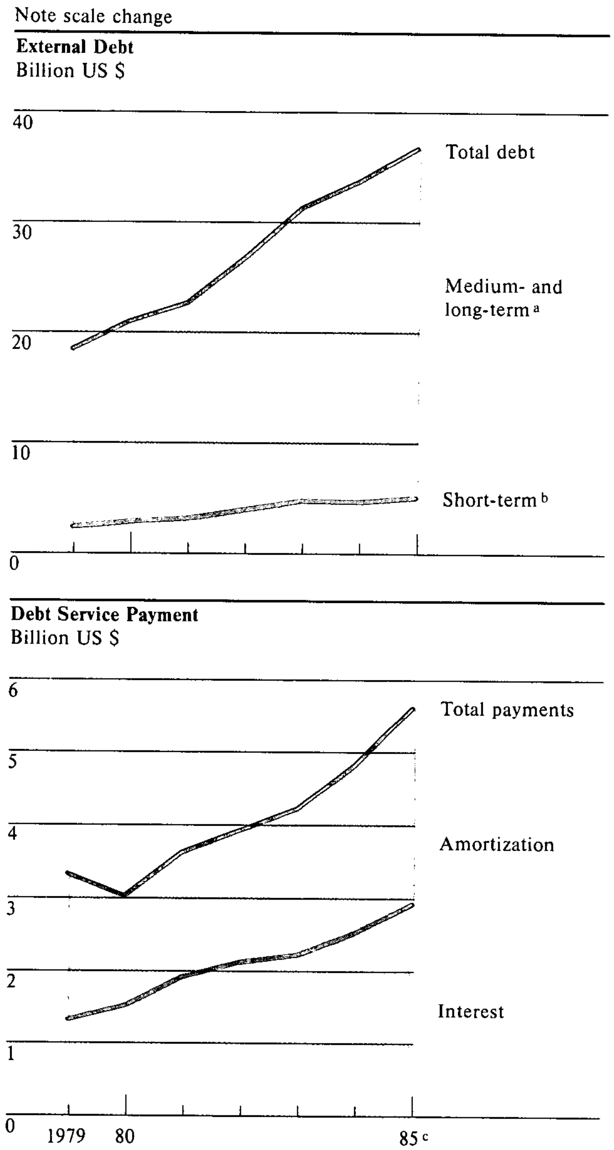
Indonesia: External Debt and Debt Service, 1979-85



a Including IMF loans.
b Including short-term trade financing and short-term borrowing by the central bank and commercial banks to finance international reserves.
c Estimate.

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policies that have protected its finances so far: austerity and foreign exchange rate adjustments. In addition, we have supplemented our analysis with a probability index of debt rescheduling in an attempt to quantify the chance that Jakarta might seek to reschedule its foreign debt.[2] 25X1

Best Case Scenario. We believe both Indonesia's external accounts and its growth potential can be expected to fare reasonably well under $20 per barrel oil. At $20 per barrel, real economic growth would exceed 4 percent annually, with unemployment at 30 percent in 1987. Indonesia's current account deficits would rise to approximately $3.5 billion annually through 1989, while the probability of a debt rescheduling would be 25 percent by 1987, falling to 20 percent by the end of the decade. By comparison, before Jakarta's last rescheduling in 1970, the probability index reached 45 percent. 25X1

A Worst Case Scenario. At $15 per barrel, the economy would be in a very delicate financial position. The annual current account deficit would probably exceed $4 billion, pushing the country's foreign debt to over $50 billion by the end of the decade. Total debt service payments could rise to well over $8 billion by 1989. 25X1

In our judgment, prudent policymaking still would enable Jakarta to meet its debt obligations. Although interest payments and principal repayments would absorb approximately 40 percent of export earnings, this is well below the 85 percent registered before Indonesia's last rescheduling episode. Moreover, we calculate that the probability of a debt rescheduling will peak at less than 30 percent by 1987, before moderating to 20 percent by the end of the decade. 25X1

The pain of $15 per barrel oil, in our judgment, would come instead from the fiscal austerity required to slow imports, which would exact a heavy

[2] Probabilities are estimated using an econometric technique that attempts to predict a binary event—in this case rescheduling versus no rescheduling—on the basis of statistically significant economic and noneconomic data. 25X1

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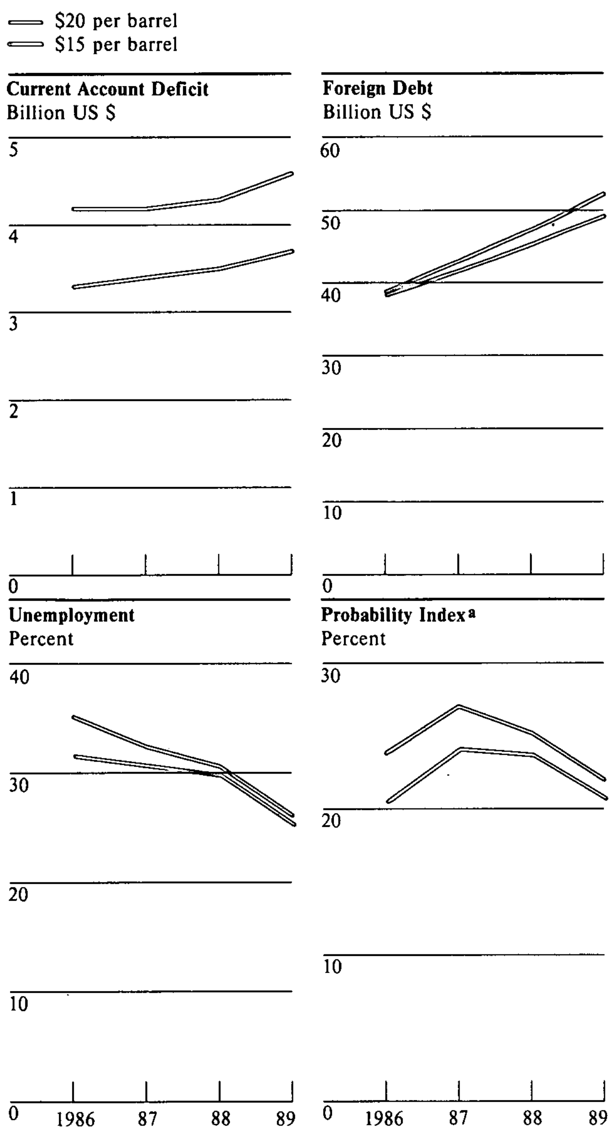
Indonesia: Impact of Changing Oil Prices, 1986-89



a This index is a measure of the likelihood that the Indonesia will reschedule its foreign debt.

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toll on the economy. Real economic growth would stagnate at 3.5 to 4.0 percent annually—far short of the 5 to 6 percent real growth considered essential in order to stem the growth of unemployment. Unemployment could soar as high as 35 percent by 1986—underemployment would also be extensive—putting serious strains on Indonesia's social fabric. 25X1

Wrestling With Policy Alternatives

From a balance-of-payments perspective, Jakarta still has some breathing room under any of our oil scenarios. Government austerity measures already in place should keep import growth and current account deficits in check over the near term. Moreover, the country has ready access to foreign private credit and the government's financial stockpile is substantial—foreign exchange reserves totaled nearly $10 billion at yearend 1985. 25X1

Recent actions of the Soeharto government suggest that Jakarta is prepared to make whatever policy decisions are necessary to maintain its international credit standing. Budget cutbacks since 1981, for example, enabled the government to hold current account deficits to 3.5 percent of GNP. Moreover, the trade account has rebounded from a surplus of only $1 billion in 1983, following the initial declines in oil prices, to a surplus of $5.5 billion in 1984 and an estimated surplus of $4.9 billion last year. Government policy initiatives responsible for this track record include:

- Policies to promote nonoil exports, such as currency devaluation, banking deregulation, new shipping and customs procedures, and tax reform.
- Rephasing of large-scale capital- and import-intensive development projects.
- Government expenditure cutbacks amounting to roughly $5 billion since 1981. 25X1

For the future, we believe Jakarta's policy options fall into two broad categories. On the one hand, the government can continue to stress its capital-intensive import-substitution development strategy. Such a policy, however, risks continued slow

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Indonesia: Current Account Trends, 1982-85 *Billion US $*

	1982	1983	1984	1985 [a]
Trade balance	1.9	1.0	5.5	4.9
Merchandise exports (f.o.b.)	19.7	18.7	20.8	18.9
Crude petroleum	12.0	11.9	10.2	9.0
Petroleum products	0.6	1.0	1.3	1.5
Liquified natural gas	2.9	2.6	3.5	4.0
Wood and wood products	0.8	1.1	1.2	1.2
Rubber	0.6	0.8	0.9	1.0
Coffee	0.3	0.4	0.6	0.7
Textiles and garments	0.2	0.3	0.5	0.6
Merchandise imports (f.o.b.)	17.9	17.7	15.3	14.0
Consumer goods	1.2	1.7	0.8	1.0
Raw materials	12.5	11.7	10.5	11.0
Fuels	2.7	3.1	2.3	2.5
Agricultural	0.8	0.7	0.5	0.6
Industrial	5.8	5.2	5.1	4.9
Capital goods	3.0	2.9	2.6	2.4
Industrial	2.3	2.5	2.0	1.8
Transport	0.7	0.4	0.6	0.6
Service balance	−7.4	−7.4	−7.7	−7.9
Service exports	1.5	1.2	1.4	1.5
Service imports	8.9	8.6	9.1	9.4
Interest payments	1.5	1.8	2.6	2.9
Net transfers	0.1	0.1	0.1	0.1
Current account balance	**−5.3**	**−6.3**	**−2.1**	**−3.0**

[a] Estimated.

growth, rising unemployment, and social unrest. If this policy is accompanied by increased deficit spending to create jobs, the result will be higher foreign borrowing, which would risk Jakarta's standing with its foreign creditors and further reduce incentives to cut costs and improve efficiency.

Jakarta's alternative is to bolster its labor-intensive export-promotion efforts. In the long run, this would enable the government to ease the unemployment situation despite falling oil prices. This option, however, entails costs. It would reduce the government's ability to control the economy and threaten inefficient domestic firms with stiff new competition from both domestic and foreign investors. It might also fuel protectionist pressures in industrial country markets and pit Indonesian exporters against firms in the more advanced developing countries that have already gained access to these markets. 25X1

All signs from Jakarta suggest more austerity in the immediate future with little in the way of structural change. An anticipated 14-percent decline in oil and gas revenues for fiscal 1986,[3] for example, led President Soeharto to announced sharp cuts in the federal budget, while the country's underlying capital-intensive growth strategy remains essentially unchanged. The new budget—$19.4 billion—is an 11-percent decrease over the previous fiscal year. This is the most austere budget since the early 1970s and one that includes a cut of 22 percent in development spending—the first such cut since 1969. 25X1

Moving Into the Late 1980s

Indonesia's long-term economic growth and political prospects will continue to be hampered by soft world oil prices. At best, economic growth will average around 4 percent for the balance of the decade, resulting in sharp increases in an already desperate unemployment problem. While this does not in itself pose a serious threat to the government, the rising tide of Indonesia's unemployed could exacerbate existing ethnic tensions. In the past, Jakarta reacted to rioting and public tensions by using oil revenues to remedy the symptoms, rather than the causes, of Indonesia's social ills. The regime must now come to grips with the shortcomings of an economic policy that has done little to lay the groundwork for sustained economic growth and relieve the plight of the country's poor. 25X1 25X1

Even if basic reforms in economic policy were enacted, however, tangible results would take years to materialize. Instead, we believe that Soeharto

[3] The fiscal year begins 1 April. 25X1

will intensify efforts to expand the country's nonoil export markets wherever possible—including China, the Soviet Union, and the East European countries. This tactic is likely to meet with very limited success. In the meantime, increasing rural landlessness, migration to the cities, rising expectations, and growing dissatisfaction with poor living conditions will continue to exert severe strains on the government's financial and managerial resources. Under these circumstances, growing unemployment could spark more social tension than in recent years, and force Jakarta to abandon some of the strictures of foreign debt management that have served it well thus far. 25X1

If Jakarta does not continue its present development policy, we judge the path the government takes will include measures to deregulate the economy. Indications of such a shift would include:

- Efforts to encourage private domestic and foreign investment in order to make up for shortfalls in public investment funds. Nonoil exports, for example, have suffered from domestic protectionist measures—primarily nontariff barriers such as import licensing and quota restrictions—designed to increase local content in selected manufactures and protect uncompetitive upstream industries.

- Efforts to remove redtape, bureaucratic inefficiency, and corruption that have squeezed investment opportunities. Despite public pronouncements to the contrary, we anticipate little near-term improvement because of latent government misgivings about an independent private sector, ethnic resentment of local Chinese business activity, and nationalistic objections to foreign involvement in domestic economic activity. 25X1

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Key LDC Debtors: 1985 Trade Performance and Outlook for 1986

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Key LDC debtors recorded a dismal trade performance in 1985. For the group of 12 countries we examined,[1] export earnings declined about $8 billion. Unable or unwilling to draw down reserves or obtain new credits, many key debtors reduced imports, limiting the cumulative trade surplus decline to only $1 billion. For this year, we forecast higher export earnings for most non-oil-exporting key debtors, but oil exporters will continue to suffer from declining petroleum prices. For several key debtors, lower exports and higher debt service requirements will squeeze import growth. As a result, we believe it increasingly likely that other countries will follow the lead of Nigeria and Peru and unilaterally limit debt service payments. 25X1

Lower Export Growth

Key debtor exports declined last year, the result of past unfavorable exchange rate movements, sagging commodity prices, and slower economic growth in developed countries. We estimate export earnings dropped 5 percent, or approximately $8 billion, a dramatic reversal from the 7-percent increase in 1984. 25X1

Among individual debtors, exports increased in only four of the 12 countries we examined:

- ***Colombian*** exports of coal and petroleum doubled, and gains were reported for cotton, rice, manufactures, and other minerals.
- ***Nigeria*** sharply boosted oil export volume in the first and fourth quarters of last year, offsetting declining petroleum prices.
- ***Argentine*** grain exports reached record levels, despite sharply lower prices. Nontraditional exports also showed gains, and sales of petroleum doubled to about $600 million.
- ***South Korea***'s export revenue growth was the smallest in almost 30 years and a sharp reversal from the 20-percent gain recorded in 1984. The major factors were lower economic growth in major export markets (such as the United States and Japan), falling export prices, and increased protectionism. 25X1

Exports fell in the other eight debtors, in some cases dramatically:

- ***Philippine*** sales of sugar and coconut products dropped, while exports of nontraditional items such as electronic goods showed little change. Lack of a coherent export promotion program also hindered foreign sales.
- For ***Venezuela***, lower oil prices and export volume reduced earnings by nearly $2 billion. Nonoil exports registered a sizable percentage gain, but they still account for less than 10 percent of total export earnings.
- ***Mexican*** export losses were primarily in petroleum and petroleum products. Nonoil exports also declined as a result of lower economic growth in developed countries—especially the United States—and falling export prices. 25X1

Imports Forced Down Again

In response to the loss of export revenue, most key debtors were forced to cut imports last year. For the group as a whole, we estimate imports dropped 6 percent, the fourth annual decline in a row:

- ***Colombian*** efforts to improve the trade balance led to deep cuts in imports of electrical machinery, transport equipment, and grain.

[1] The countries are Argentina, Brazil, Chile, Colombia, Indonesia, Malaysia, Mexico, Nigeria, Peru, the Philippines, South Korea, and Venezuela. 25X1

Key LDC Debtors: Trade Performance, 1984-85

Billion US $
(except where noted)

	Exports (f.o.b.)			Imports (f.o.b.)			Balance		
	1984	1985 [a]	Change *(percent)*	1984	1985 [a]	Change *(percent)*	1984	1985 [a]	Change
Total	**158.3**	**150.4**	**−5**	**112.4**	**105.8**	**−6**	**45.9**	**44.6**	**−1.3**
Argentina	8.1	8.2	1	4.1	3.8	−7	4.0	4.4	0.4
Brazil	27.0	25.6	−5	13.9	13.2	−5	13.1	12.4	−0.7
Chile	3.7	3.6	−3	3.5	2.9	−17	0.2	0.7	0.5
Colombia [b]	2.0	2.3	15	2.7	1.9	−30	−0.7	0.4	1.1
Indonesia	20.8	19.0	−9	15.3	14.0	−8	5.5	5.0	−0.5
Malaysia [c]	10.8	10.3	−5	8.6	7.7	−11	2.2	2.6	0.4
Mexico	24.0	21.6	−10	11.3	13.4	19	12.7	8.2	−4.5
Nigeria	11.2	11.5	3	9.5	8.5	−10	1.9	3.2	1.3
Peru	3.1	3.0	−3	2.1	1.9	−10	1.0	1.1	0.1
Philippines	5.4	4.6	−15	6.1	5.0	−18	−0.7	−0.4	0.3
South Korea	26.3	26.5	1	27.4	26.4	−4	−1.1	0.1	1.2
Venezuela	15.9	14.2	−11	7.9	7.1	−10	8.0	7.1	−0.9

[a] Estimated.
[b] 1985 estimate based on data through October.
[c] 1985 estimate based on data through August.

25X1

- ***Chile*** used a variety of import controls—such as reference pricing and higher tariffs—to reduce imports last year. Imports from major OECD countries fell 27 percent, with the largest declines in food and manufactured goods.

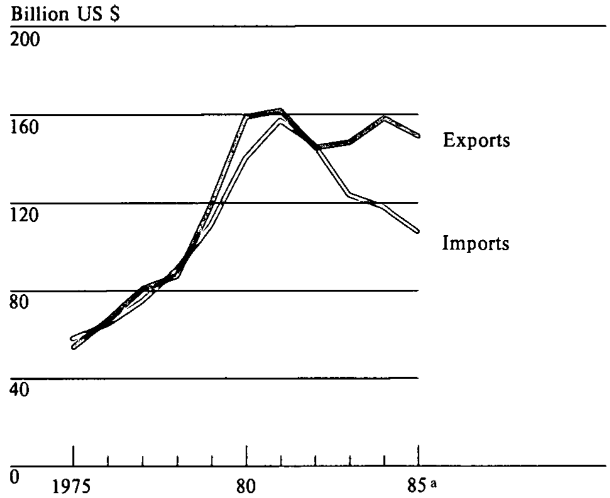
- The ***Philippine*** import drop reflected continuing sharp declines in real GNP. Manufactures imports from major developed countries fell nearly 20 percent, with smaller declines in foodstuffs and raw materials.

- ***Peru*** sliced imports of industrial inputs and capital goods. In addition, spending for luxury items was halved. Trade with the United States and Canada fell sharply, while imports from France and the United Kingdom increased.

- ***South Korean*** imports showed the first decline since 1982—as a result of lower real GNP growth. Imports of food and raw materials fell sharply, while purchases of fuels and manufactured goods increased. 25X1

Mexico, the major exception, recorded the only import gain among the group, with purchases up 20 percent in 1985 under the stimulus of increased preelection public-sector spending. Imports of manufactured goods (especially machinery, transport equipment, and consumer goods) rose 20 percent, and raw materials imports were up 16 percent. This import surge contributed to a $4 billion drop in Mexican foreign exchange reserves; we believe net reserves now total around $2 billion, less than two months' import coverage. 25X1

Key LDC Debtors: Export and Import Trends, 1975-85



a Estimated.

[redacted]

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Key LDC Debtors: Outlook for 1986 Export Growth

	Sharply Higher	Higher	No Change	Lower	Sharply Lower
Argentina			X		
Brazil		X			
Chile		X			
Colombia	X				
Indonesia				X	
Malaysia				X	
Mexico					X
Nigeria					X
Peru				X	
Philippines	X				
South Korea		X			
Venezuela					X

[redacted] 25X1

Efforts To Boost Trade Surpluses

Most key debtors increased their surpluses last year to finance their debt service payments and maintain creditworthiness. Colombia, Nigeria, and South Korea recorded gains in excess of $1 billion. [redacted]

The glaring exception was Mexico. According to our estimates, the Mexican trade surplus last year was down 35 percent from 1984. The loss sharply increased the current account deficit, jeopardized the multiyear debt rescheduling agreement signed last year, and raised new fears over the country's ability to service its $100 billion debt. As a result, Mexico may be forced to seek as much as $9 billion in new lending this year, far more than previously anticipated. [redacted]

Outlook

We forecast higher export earnings for most non-oil-exporting debtors in 1986. The drop in the US dollar, continued economic growth in developed countries, and the expected firming of commodity export prices will be contributing factors: 25X1

- The outlook appears especially bright for Colombia; earnings from coffee exports may rise as much as $1 billion this year, and sales of coal are also expected to surge.
- Brazil will also benefit from the higher coffee prices it will receive on sales from inventories. [redacted] 25X1

25X1

On the other hand, major oil-exporting countries, especially those with few nonoil exports, will continue to suffer from falling petroleum prices. If the recent drop in oil prices is sustained, and world prices average $20 per barrel:

- Mexico—already reeling from last year's export decline—would be especially hard hit, experiencing a $3.7 billion drop in oil earnings. Nonoil export growth in these key debtors almost certainly will not be strong enough to make up for the expected loss of oil export revenue. 25X1
- Nigeria would suffer a $3.6 billion loss in oil revenues.

- Venezuelan oil revenue losses would total about $3.3 billion. 25X1

Oil exporters face bleak import prospects next year. However, we believe these LDCs will not try to compensate for lost export revenues by further squeezing imports. In most nonoil exporters, stronger export growth should provide some additional import capacity to support government priorities for economic growth, but the impact will be limited by higher scheduled debt service payments. Under these circumstances, several key debtors are likely to seek further debt rescheduling, or new loans from creditors. If sufficient financial relief is not forthcoming, additional countries may follow the lead of Nigeria and Peru and limit debt service payments to a fraction of exports. 25X1

25X1

USSR–Eastern Europe: New CEMA S&T Program 25X1

The CEMA Complex Program for Scientific and Technical Progress Until the Year 2000 is a blueprint for cooperation in science and technology to spur economic growth throughout the region. Its principal goal is to close the gap vis-a-vis Western science and technology by the end of the century through greater economic integration. CEMA regards the new program as the most significant initiative since the 1971 program for cooperation and the development of socialist integration. Moscow's long-term objective is to tie East European economies more closely to the Soviet system and make them more responsive to Soviet needs. At the same time it is designed to reduce CEMA's dependence on Western technology and, in particular, to eliminate Western leverage through economic sanctions and embargoes. The twin goals of technological modernization and self-sufficiency, however, may well turn out to be inherently contradictory. This is likely to lead to serious discord among the members, which, in turn, will hamper the implementation of the program.

Scope of the Program

The new push for scientific-technical cooperation was launched at the June 1984 CEMA Summit in Moscow, where the leaders agreed to prepare a 15- to 20-year multilateral program as the basis for a coordinated—"and in some cases, unified"—science and technology policy in CEMA. While work on the program began before General Secretary Gorbachev took office, he was probably instrumental in pushing the draft plan to completion last year. The program was originally to be completed by the end of 1984, but was not formally adopted until a special meeting of CEMA premiers in Moscow last December.

The Complex Program identifies five major areas of development: electronics, automation, nuclear power, new materials and technologies associated with them, and biotechnology. The specific goals in each of the five areas reflect the desire of the CEMA countries to be at the frontier in each field and equal to the West in the year 2000. 25X1

The program consists of 92 tasks or problems. The goal is to solve half of these problems within three years by producing new equipment and applying new technologies. To help meet this ambitious timetable, 67 new agreements are to be concluded among members and over 80 existing agreements are to be extended by June 1986. 25X1

Three secondary multilateral accords also announced at the December meeting include an agreement on the creation and introduction of computer-aided design (CAD), another on the development and production of a unified fiber-optic information communications system, and the establishment of Interrobot. Six (unnamed) CEMA countries are slated to participate in Interrobot, which will coordinate research in advanced robots and production of robots and related components. 25X1

25X1

Implementation: News Forms of Cooperation

CEMA's earlier effort at specialization and integration foundered largely because of an inability to provide incentives or authority to carry through on plans. As a result, CEMA's programs generally have been undermined by inattention and failure to cooperate at lower levels. The new program shows a determination to avoid repetition of these past errors; the most interesting and novel aspects are the provisions to implement it. There is a strong effort to directly involve lower levels—enterprises, research institutes, and design bureaus—and to assign them responsibility for meeting the targets. 25X1

25X1

The Technical Targets

The announcement of the S&T program was accompanied by a list of several goals—presumably a portion of the 92 tasks. Most of the goals are described only in general terms, but the few that were specified are extremely ambitious. In addition, many of the goals have significant military applications. [redacted]

In electronics, the overall goal is the mass introduction of advanced electronics throughout CEMA. The program calls for the production of a supercomputer capable of 10 billion operations per second, which is roughly 20 times the speed of the West's fastest computer, the use of artificial intelligence to streamline management, an integrated digital information communications system, a high-speed fiber-optic communication system, and a new generation of satellite communications. [redacted]

The basic objectives in the area of new materials include cooperation to widely introduce, primarily in industry, new types of materials that are durable and resistant to corrosion, radiation, and heat. The priority tasks include the development of a ceramic internal-combustion engine and a ceramic gas turbine engine, improvement of continuous casting technology, and creation and introduction of new plastics and composite materials. [redacted]

In the area of automation, the CEMA countries want to automate their economies through widespread use of flexible manufacturing systems, computer-aided design (CAD), and computer-aided manufacture (CAM). They plan to use high-accuracy electronic sensors and measuring instruments for quality control. Industrial robots, including those with artificial vision and the ability to understand spoken commands, also are to be introduced. [redacted] 25X1

25X1

The aims of CEMA in nuclear power development include creation of district nuclear heat and electricity supplies for civilian and industrial use (including long-distance—25 kilometer—transport of heat). Other goals include development of equipment for fast breeder reactors and multipurpose high-temperature (for increased efficiency) nuclear power engineering installations and implementation of research on controlled nuclear fusion. [redacted] 25X1

25X1

Bioengineering tasks are directed toward medicine and agriculture and include new medicines, synthetic proteins, development of microbiological agents to protect plants against diseases and pests, bacterial fertilizers and plant hormones, and new high-yield crop varieties resistant to adverse environmental conditions. [redacted] 25X1

A few days before the CEMA Council approved the S&T program, Moscow established 16 Interbranch Scientific and Technical Complexes (MNTK) to coordinate Soviet research in key areas such as lasers, robotics, fiber optics, personal computers, polymers, and biotechnology. In general, each MNTK will have as its nucleus an academic or industrial ministry institute and will coordinate all of the work in its area throughout the USSR. Resources are to be ensured by the State Committee on Material and Technical Supply. Once new technologies developed by the complexes are deemed ready, the State Planning Committee will select the enterprises to apply the technologies on a broad scale. [redacted]

MNTKs are also expected to oversee the coordination and execution throughout CEMA of R&D in the five priority areas. Details are sketchy, but presumably each Soviet MNTK will work with counterpart research organizations in each of the other CEMA countries to complete the assigned tasks. Statements by CEMA officials indicate that many of the MNTKs' partners in Eastern Europe still have not been selected. [redacted] 25X1

The leading role of the MNTKs appears to assure Soviet dominance of the CEMA S&T program and these fledgling organizations also bear great responsibility for the success of the program. The US

25X1

Embassy in Moscow notes many uncertainties about how the MNTKs will relate to the rest of the Soviet scientific community, especially the Academy of Sciences and the State Committee for Science and Technology.

The program stresses the importance of direct links thoughout CEMA between production and research organizations at all levels. Joint Science and Production Associations, also referred to as trusts, will include both R&D institutes and production enterprises. The new multilateral Interrobot appears to be the first undertaking that encompasses both a design bureau and full production. According to the Polish press, there are proposals for additional joint enterprises in the chemical and light industries, and in agriculture. Joint scientific-research institutes, also called international collectives of scientists, will be bridges between researchers in CEMA. We do not know whether any of these have yet been established.

Finally, bilateral coordination of economic plans—the traditional method of implementing CEMA programs—will be an important tool. In an interview, Guriy Marchuk, chairman of the Soviet State Committee on Science and Technology, pointedly said that bilateral interests of the CEMA countries will play a significant role in the Complex Program.

Commitment of resources for the program will be the responsibility of the participating countries, although credits from the two CEMA banks, the International Investment Bank and the International Bank for Economic Cooperation, have been suggested.

Eastern Europe's Participation

East European responses to the Complex Program, which was primarily generated by the Soviets, were guardedly positive. While the East Europeans seem genuinely interested in the benefits that would come from fulfillment of the program, their enthusiasm is tempered by their own problems and interests:

- Premier Stoph said ***East Germany*** will participate in all five areas and will develop direct ties to enterprises in other CEMA countries. Stoph reported that tasks resulting from the Complex Program are being incorporated into East Berlin's annual and five-year plans and that party and government will take the necessary short-term measures to meet commitments. He noted that industrial combines in East Germany already have responsibility for the whole production process from R&D through sales. 25X1

- ***Poland*** embraced the Complex Program as the answer to the technological threat from the West and Japan. Warsaw will participate in all five areas, and expects to develop exports of drugs, mining equipment, and electronics. At the CEMA meeting, Polish Premier Messner implied that Poland was waiting for instructions from the Soviets on where to concentrate before completing Poland's 1986-90 S&T plan. Warsaw already had increased research and development funding 30 percent above what was called for in the draft plan for R&D to 1990. 25X1

- ***Hungary*** also will participate in all five major areas and 70 to 80 percent of the tasks of the program. In electronics, Budapest will participate in the development of two new central processor computer units and new software. In bioengineering, their contribution will be in agro-industry and pharmaceuticals. 25X1

25X1

25X1

- Statements by ***Czechoslovak*** Premier Strougal indicated that Prague wishes to participate across the board in the Complex Program, and will be active in 50 to 75 percent of the programs. He emphasized that participating countries must fulfill their commitments.

- ***Bulgaria*** is likely to have a major—but not dominant—role in robotics, [redacted] many countries are vying for leading roles in the CEMA robotics program.

- The ***Romanian*** response was cooler than that of the other CEMA countries. At the party's Political Executive Committee meeting in December, President Ceausescu complained that plan coordination for 1986-90 did not meet the goals of the 1984 CEMA Summit and that CEMA had failed to establish production specialization and production coordination. He later asserted that CEMA had failed to meet the commitments to solve the energy and raw materials problems, and stated that Bucharest will focus its resources on these problems before it addresses such topics as robotics. [redacted]

Outlook: Old Obstacles and New Conditions

History offers much reason for skepticism about the success of the latest Soviet-inspired drive for integration of the Bloc economies. Past efforts, launched with similar vigor and rhetoric, have achieved, at best, mixed results. Earlier programs succumbed to the ability of some of the East Europeans—and perhaps the Soviets—to duck their commitments in favor of pursuing trade with the West and other economic and political goals. The programs lacked the institutional authority to compel participation and the incentives to encourage it. [redacted] 25X1

The East European countries still may present several obstacles to the new program. They will be strapped to commit large amounts of resources to CEMA S&T because of prospects for slow economic growth, debts to the West, and large investments in Soviet energy projects. The more technologically advanced countries—Hungary and East Germany, for example—will have less to gain from sharing their technology and may be reluctant to contribute. The success of the program will depend largely on the willingness of scientists and engineers in each country to share their knowledge and techniques with the rest of CEMA. [redacted] 25X1 25X1

Nonetheless, this initiative may yield better results. The emphasis on implementation indicates the Soviets have correctly diagnosed some of the flaws in earlier programs, although only time will tell whether the new organizations and mechanisms will be the appropriate remedy. It is also possible that the East Europeans will be more willing and active participants than in the past. The prospect of technological advance appeals to them, and trade with the West probably is no longer considered by some as the path to prosperity. Finally, in Gorbachev the East Europeans face for the first time in many years a tough and vigorous Soviet leader who clearly expects his allies to toe the line—and who has put his own stamp on CEMA's new initiative. [redacted] 25X1 25X1

[redacted] 25X1

Romania-USSR: Poor Prospects for Trade Growth in 1986-90

25X1

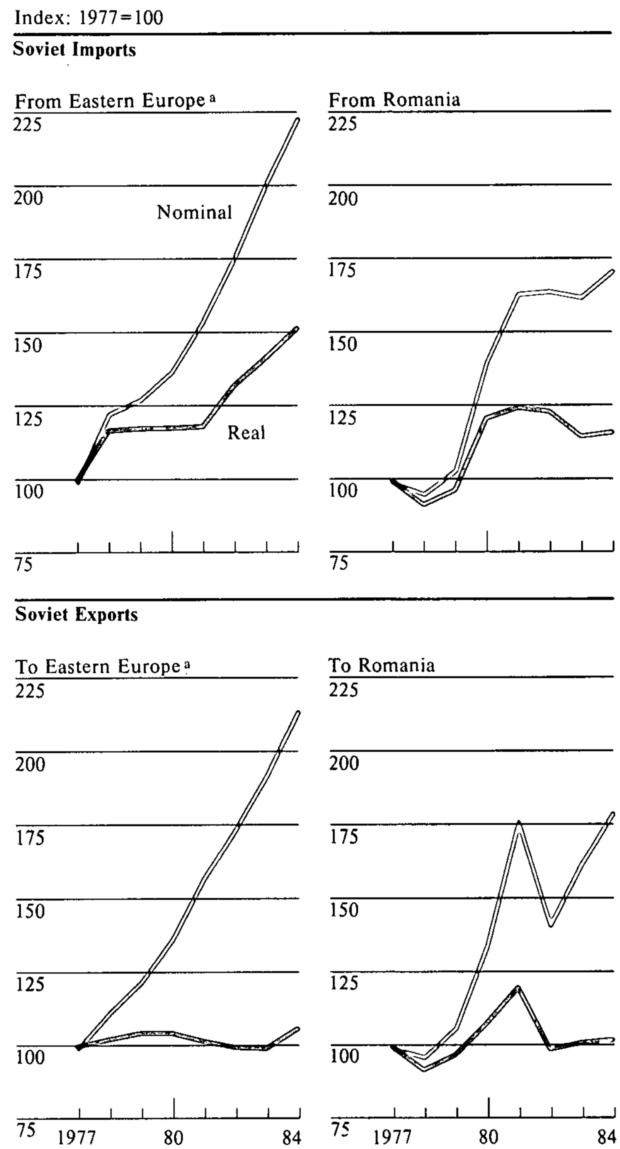
The Romanian-Soviet trade protocol for 1986-90 and the new five-year science and technology cooperation agreement suggest a significant strengthening of economic ties between the two countries. Trade is to increase by at least 70 percent over the 1981-85 level, the fastest planned growth rate for Soviet trade with any East European country. There is reason, however, to question whether trade will reach the levels envisioned. About one-third of the projected growth is based on highly unrealistic expectations for Soviet oil exports, while much of the remaining growth is to come from joint development projects, many of which are likely to progress slowly. Moreover, the implementing contracts for most areas under the two agreements remain to be worked out. Growth in Soviet-Romanian trade for the next several years will be hampered by the same constraints that have inhibited bilateral trade in recent years—the USSR's insistence on balanced trade and its refusal to grant concessionary terms, and Romania's inability to deliver the type and quality of goods required.

25X1

Background

Since the late 1970s, foreign debt problems and domestic economic decline have led Romania to seek increased trade with the USSR, despite Bucharest's longstanding concern to avoid economic dependence. Romania's primary objective has been to obtain increased deliveries of energy and raw materials in return for goods difficult to sell in the West. Romania's eagerness, however, has not been matched by Soviet responsiveness. The USSR's insistence on balanced trade and its refusal to grant concessionary terms have inhibited significant growth in trade with Romania. Of the 40,000 b/d of oil agreed upon for 1984, and the 68,000 b/d for 1985, Romania received little more than half largely because of its inability—or unwillingness—to supply the type and quality of goods required in return. Romanian trade in real terms with the USSR since 1980 has grown less than that of any

Soviet-East European Trade, 1977-84



a Includes East European CEMA countries except Romania.

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other East European CEMA country, with the exception of Poland. The substantial increase in the Soviet share of Romanian trade was primarily due to cutbacks in Bucharest's trade with the non-Communist world. Although preliminary data indicates trade in real terms with the USSR picked up by about 10 percent in 1985, it still fell considerably short of target. [redacted]

The 1986-90 Trade Protocol

The new five-year trade agreement envisions total trade of 30-35 billion rubles,[1] an increase of 70 to 100 percent over the level achieved in 1981-85. The big-ticket items include:

- Soviet deliveries of 100,000 b/d of oil annually in return for agricultural products—mostly meat—and some industrial machinery.
- Approximately 15-20 billion cubic meters of Soviet gas in 1987-90 in return for assistance in building the Progress pipeline; the agreement to begin deliveries in 1987 (instead of 1989 as for the other East European CEMA countries) may be a concession to Romanian energy needs.
- Romanian deliveries of machinery and equipment valued at 6-6.5 billion rubles ($7.4-8.0 billion)—including increased deliveries of oil drilling equipment and agricultural machinery—and Soviet deliveries of machinery valued at 4.5 billion rubles ($5.5 billion). [redacted]

The plan also allows the Soviets to make use of the unutilized 40 percent of steel production capacity in Romania—the Soviets are to provide the required energy and raw materials. Technical cooperation will include continuing Romanian construction of KA-126 helicopters and IL-114 two-engine medium-range aircraft for the Soviets. The Romanians are scheduled to deliver several tankers and cargo vessels annually, and will be partially compensated by Soviet assistance in modernizing their shipyards. [redacted]

[1] At the current exchange rate of US $1 = 0.81 rubles, this is equivalent to $37-43 billion. [redacted]

The extent of Romanian participation in CEMA science and technology cooperation is unclear, but the Romanians probably are most interested in the nuclear energy aspect of the program. The implementation of the 1982 agreement to construct a Soviet-designed 3,000-MW nuclear power plant in northern Romania may begin this year. The project presumably falls under the CEMA science and technology agreement signed in Moscow in December. [redacted]

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Economic Obstacles

Although the agreement's provisions for Romanian construction of the IL-114, Soviet utilization of Romanian steel plants, and cooperation on the Pribuzhiye nuclear plant in the Ukraine are mutually advantageous, terms for the other deals outlined for 1986-90 do not match Romanian needs or abilities to pay:

- The Soviet commodity most desired by the Romanians—crude oil—is the item Moscow will be most reluctant to supply. Falling Soviet oil production and decreasing world oil prices, which have cut the USSR's hard currency oil earnings, have stiffened Moscow's resolve to obtain full compensation for its oil exports to Romania. Pique at Romania's practice of refining Soviet oil and reexporting products for hard currency has also played a role. As a result, the Soviets are insisting on hard currency goods, primarily meat, with the balance in high-quality industrial machinery. The faltering Romanian agricultural sector is not likely to produce the food deliveries needed to obtain the full 100,000 b/d of oil offered.
- The Soviets are demanding that, in the 1986-90 period, the Romanians provide machinery and other goods of equal quality to items supplied by the Soviets. Romanian industry, plagued by shortages and inferior inputs, is unlikely to supply all the high-quality machinery Moscow is seeking. Bucharest may be reluctant to divert goods now exported to the West to meet its goal of eliminating its hard currency debts.

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Romania-USSR: Joint Development Projects

Project	Romanian Contribution	Time Frame	Compensation
Orenburg natural gas pipeline	Financing for gas-processing plant	Completed 1977-79	1.5 billion cubic meters of natural gas per year, 1979-90
Sovetabad natural gas field and pipeline	Construction and equipment	Under way in 1984, to be completed in 1990	300 million cubic meters of natural gas per year
Yamburg (Progress) natural gas pipeline	Construction and equipment, assistance in exploration of Soviet oilfields, financing	1989-90	5 billion cubic meters of natural gas per year, 1987-90
Krivoi Rog iron ore enrichment plant	Construction	1984-89	Iron ore, amounts under negotiation
Asbestos plant in Kiembai, Siberia	Construction	Ongoing	30,000 metric tons of asbestos delivered annually until 1990
Usti Ilim cellulose and paper plant	Construction	NA	50,000 tons of cellulose per year until 1990
Kursk metallurgical complex	Construction	Ongoing	50,000 tons of ferroalloys per year until 1990
Pribuzhiye atomic power plant	Construction work, installation of reactors	1982-90	Electric power through the year 2004; first installment of 1.5 million kwh delivered in 1985
USSR-Turkey gas pipeline from USSR through Romania and Bulgaria	Construction of 200 kilometers through Romania	Begun in 1985, scheduled for completion in 1988	Transit fees
Moldova 3,000-MW nuclear power plant	Romania to provide construction materials and labor; USSR to supply technology and equipment	1986-90	NA
KA-126 helicopters	900 already delivered	1986-90	NA
IL-114 two-engine medium-range aircraft	50 to 60 annually	1986-90	NA

25X1

- The terms for Romanian participation in the Progress pipeline are not settled. Although Romania was originally scheduled to construct a segment of the 4,600-kilometer line, providing machinery, pipe, and labor, Bucharest has indicated that it will not be able to completely meet this commitment and will substitute assistance in the exploration of Soviet oilfields.

- The Moldava nuclear power plant project could be delayed or even scuttled because the Soviets will probably require hard currency goods in payment for much of their contribution. 25X1

Political Obstacles

Because of Bucharest's uncooperative behavior in the international arena—which has frequently embarrassed and annoyed Moscow—the USSR is unwilling to provide economic assistance, especially when it is attempting to reduce the level of economic support to Eastern Europe. Romanian irritation surfaced in late December when Ceausescu criticized CEMA for not responding to Romanian energy and raw material needs. He stated that the coordinated 1986-90 plans for CEMA members did not reflect the objectives set forth at the CEMA Summit in 1984, and called for implementation of existing technology before turning to the high-technology programs being pushed by the Soviets. He reportedly repeated these ideas to the Soviet delegation that came to Bucharest to sign the science and technology agreement.

Outlook

Soviet-Romanian trade—particularly Romania's dependence on Soviet oil and gas—will increase over the next several years, but will not reach the level of the other East European countries. Soviet oil deliveries are unlikely to reach the 100,000 b/d envisioned under the new five-year accords, but, even if they do, Soviet oil would account for somewhat less than 20 percent of total Romanian oil supply. Most other East European countries receive at least 75 percent of their oil supply from the USSR. Similarly, even if annual Soviet gas deliveries reach the 7-billion-cubic-meter level, this amount would represent only 15 to 20 percent of Romania's total supply, in sharp contrast to the 35- to 40-percent dependency of most other East European countries. Furthermore, given the recent declines in the price of oil in world markets, the Romanians might turn to the spot market if they perceive Soviet terms to be too onerous. 25X1

Moscow's insistence on quid pro quo trade arrangements suggests that the USSR is not interested in trying to buy greater foreign policy compliance from Romania. The Soviets do not appear to regard Ceausescu's behavior as a sufficient threat to their interests to warrant expending substantial sums to try to rein him in. They probably realize it would be a nearly impossible feat to carry off. Now is probably the most propitious time to make the attempt, however. After 1988, Romania's financial squeeze will lessen, giving it greater flexibility to rebuild trade levels with the West. Moreover, many of the joint cooperation projects with the USSR are scheduled to be completed after 1990, and unless new projects are entered into late in the decade or existing projects are extended, trade levels are likely to drop thereafter. 25X1

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Briefs

Energy

OPEC Production Update

OPEC crude oil output averaged 17.3 million b/d in January, a 1.1-million-b/d decrease from December levels. Weak oil demand caused Saudi production to drop about 600,000 b/d, which may indicate that companies are not picking up all the oil they are entitled to under netback contracts. Nigeria and Libya also had trouble marketing their oil. 25X1

OPEC: Crude Oil Production, 1985-86 *Million b/d*

	Quota	1985		January 1986[a]
		Year	December	
Total	**16.0**	**16.4**	**18.4**	**17.3**
Algeria	0.66	0.7	0.6	0.7
Ecuador	0.18	0.3	0.3	0.3
Gabon	0.14	0.2	0.2	0.2
Indonesia	1.19	1.2	1.3	1.3
Iran	2.30	2.3	2.4	2.3
Iraq	1.20	1.5	1.7	1.7
Kuwait[b]	0.90	1.1 (0.9)	1.1 (1.0)	1.2 (1.0)
Libya	0.99	1.2	1.3	1.1
Nigeria	1.30	1.5	1.6	1.3
Qatar	0.28	0.3	0.3	0.3
Saudi Arabia[b]	4.35	3.5 (3.3)	4.9 (4.7)	4.3 (4.1)
UAE	0.95	1.1	1.2	1.2
Venezuela	1.56	1.6	1.6	1.4

[a] Estimated.
[b] Amount in parentheses excludes production from the Neutral Zone, whose output is divided between Saudi Arabia and Kuwait and included in their country quotas; the Neutral Zone has no production quota of its own.

25X1

Spot Oil Price Developments

Following several weeks of precipitous decline, the drop in spot oil prices has slowed since the beginning of February. North Sea and US crude prices—fluctuating in the $16.50 and $18.00 per barrel range for the past two weeks—now sell at 30 percent—or over $8 per barrel—below early January levels. Low spot prices are pulling official prices down. Mexico, Venezuela, and Egypt have all announced price cuts of as much as $4 per barrel in attempts to keep their crudes competitive. We estimate the early February average world price is about $22 per barrel in contrast to the 1985 average price of $27. Marketing and pricing problems have reduced liftings in several producing countries as consumers hold off purchasing in anticipation of further price drops. Significant output reductions, however, do not appear imminent. [redacted] 25X1

New Iranian Export Terminal

[redacted] work is nearing completion on the pipelines 25X1 connecting Ganaveh to a new oil terminal about 22 kilometers offshore. By late January one construction barge had finished laying over 90 percent of one submerged pipeline, and another barge had completed 80 percent of a second. [redacted] single-point buoy moorings were being towed to 25X1 the terminal locations at that time. After the pipeline is complete, installation and testing of the mooring may take an additional six to eight weeks. The new offshore facility will expand export capacity by approximately 1.5-2.0 million b/d and enable Iran to shift export operations in the event of further damage to Khark Island. Nevertheless, the new export facilities are well within range of the Iraqi Air Force. [redacted] 25X1

China Stabilizing Oil Exports

China last week said it will not increase its oil exports in 1986, claiming to support OPEC efforts to stabilize world oil prices. China's exports of crude rose 85 percent over the last two years and in 1985 provided an estimated $5.6 billion—one-fifth of China's foreign exchange earnings. Beijing has voiced support for price stabilization efforts in the past but has continued to increase sales and undercut OPEC prices. Although China will try to use its announcement for political mileage, other factors—including China's limited ability to increase production and control domestic consumption, and its need for foreign exchange—are more likely to influence its marketing and pricing. [redacted] 25X1

Increased Soviet Energy Deliveries to Yugoslavia

The recently signed trade protocol between the USSR and Yugoslavia for 1986-90 provides for higher annual base-level deliveries of Soviet gas, electricity, and oil than the amounts set in the protocol for 1981-85. Annual deliveries of gas will rise from 3 billion to 5 billion cubic meters, oil from 90,000 b/d to 110,000 b/d, and electricity exports will total 3.5 billion kilowatt-hours over the five years. Differences between Belgrade and Moscow over the level of energy deliveries and the composition and amount of Yugoslav exports had delayed the signing of the trade agreement for several months. Although Yugoslavia's heavy dependence on Soviet energy will continue, the actual increases will be much less than comparisons of the two protocols suggest. Gas deliveries in 1984-85 were already on the order of 4 billion cubic meters annually. Moreover, in recent years Moscow regularly granted Belgrade's requests for additional oil amounting to about 20,000 b/d annually, a practice the Soviets insist will end under the new agreement. [redacted] 25X1

International Finance

Mexico Divided on Debt Strategy

President de la Madrid's cabinet, meeting in emergency sessions, has failed to reach a consensus on debt policy. [redacted] 25X1 25X1

[redacted] Last week powerful labor leader Fidel Velazquez reversed his earlier position that debt payments should be met and some 50,000 marched in Mexico City to demand a debt moratorium. Because de la Madrid probably lacks the political will to ask Mexicans to make more sacrifices, it is increasingly likely that, unless substantial new lending or concessions are forthcoming, he will tell creditors his country cannot honor its obligations. [redacted] 25X1

25X1

25X1

[redacted]

25X1

Global and Regional Developments

Extension of EC Import Surveillance on Japanese Goods

The EC Commission has extended its system of import surveillance on certain Japanese products through 31 December 1986. Originally instituted in 1983 to limit Japanese penetration in certain "sensitive" areas, the list now includes machine tools, stereo equipment, color televisions, cathode ray tubes, motorcycles, light commercial vehicles, and forklift trucks. Dropped from the list were VCRs—whose tariff was boosted from 8 to 14 percent in January—and quartz watches. The extension of the system signals continuing EC annoyance with Japanese trade policy. EC Commission President Delors recently visited Tokyo to press again for increased imports from Community members. Tokyo, however, has refused, agreeing only to the formation of a more amorphous "surveillance group" to monitor potential EC-Japanese trade frictions. We expect continued EC pressure on the Japanese to reduce their persistent trade surplus with the Community. [redacted] 25X1

New Soviet Economic Support for Nicaragua

[redacted] 50 Soviets arriving by March for a four-year, $90 million irrigation project. This boosts the number of Soviet civilians working in Nicaragua to about 350. Nicaraguan officials had announced unspecified new Soviet agricultural aid last December. The Soviets have reportedly agreed to provide all materials and technicians needed to develop 36,000 hectares near Managua for cotton and grains. An official report indicates that this project is the first phase of the Sandinistas' 20-year, $2 billion Pacific Coast agricultural development plan—a plan largely based on work done for Somoza by USAID and the US Bureau of Reclamation in the 1970s. [redacted] 25X1 25X1

Closer Argentine-Cuban Commercial Ties

Argentina and Cuba completed negotiations on commercial air service last month, according to Embassy reporting. The two-year agreement provides for one flight each week between Buenos Aires and Havana, alternately flown by Aerolineas Argentinas and Cubana Airlines. Moreover, the two countries recently signed a maritime transport accord. Havana pushed for the transportation agreements primarily to assist its ailing maritime industry and boost its fledgling tourist business. Buenos Aires benefits handsomely from its current lopsided trade with Cuba, which purchases agricultural products, electric cables, trucks, auto parts, and other manufactures, but has no market in Argentina for its main export, sugar. Spurred by trade credits worth $200 million per year for 1984-86, Argentina's trade surplus with Cuba more than doubled over the past two years to $275-300 million in 1985, [redacted] 25X1 25X1 Buenos Aires probably believes the transportation agreements will enhance trade relations with Havana, without significantly lowering the surplus. [redacted] 25X1

Soviet Trade Overtures to Sudan

A Soviet economic delegation recently was in Khartoum to discuss trade and the possible resumption of joint economic projects, but the two sides apparently did not conclude any agreements. The Soviet Embassy in Khartoum is seeking to increase bilateral trade and, [redacted] 25X1 Moscow is interested in a "cotton-for-petrol" barter deal. The Soviets want to encourage Sudan's nonalignment and are interested in improving relations, which had deteriorated since the early 1970s. The Kremlin may be willing to make a barter deal to play on Sudan's dissatisfaction with its Western creditors. If Moscow were to supply crude oil, it probably would transfer oil from the Middle East rather than from Soviet stocks. It would have to export gasoline or petroleum products from its own supplies, however, and could offer only small quantities. [redacted] 25X1

National Developments

Developed Countries

Canadian Difficulty in Disposing of Feed Wheat

The Canadian Wheat Board may approach Ottawa for additional subsidies to promote sales of its surplus feed wheat stocks. The Board has been pushing to dispose of up to 2 million metric tons of feed wheat by midsummer, and has thus far sold 30 to 40 percent of its goal—most likely to nations in the Pacific Basin. Other potential purchasers, however, are using the global abundance of feed wheat to drive a harder bargain. Mexico and Brazil, for example, have told the Wheat Board they would like to participate in the US Export Enhancement Program rather than purchase grain at current Canadian prices. The Board has apparently reversed an earlier position and financed the Mexican deal at below-market interest rates. 25X1

British Labor Party Emphasizes Industrial Renewal

The opposition Labor Party, in anticipation of the next election, is developing an economic policy strategy aimed at Prime Minister Thatcher's free-market-oriented policies. Labor's main criticism is that Britain is being turned into a service economy of low-paying jobs and the Tory policies are inadequate to prepare the economy to compete in world markets as North Sea oil production declines through the end of the decade. Labor will propose new investment and technology to revitalize manufacturing—both high-technology and traditional industries, such as steel and coal. Party plans call for a National Investment Bank (NIB) to provide long-term financing for small innovative firms and mature industries that are facing increasing international competition. Labor's goal is to create 1 million jobs in two years, through increased direct government spending and the NIB. 25X1

West German Wage Round Under Way

The opening salvos in this spring's wage round have already been fired, but both management and labor appear prepared for compromise. The wage increase demanded by the giant metalworkers union—the pacesetter for the rest of organized labor—is 6.0 to 7.5 percent, while construction workers are asking for 5.8 percent. Both unions, however, probably will settle for pay hikes in the 3.5- to 4.5-percent range. The public employees already have settled for a 3.5-percent gain. Increases in this range would represent a real wage gain of about 1.5 to 2.5 percent and would not seriously impair export competitiveness—assuming that productivity growth maintains the 2.5-percent average of recent years. Several smaller unions are seeking cuts in the workweek, but the metalworkers will wait until after their next congress in October to pursue their 35-hour-week goal. 25X1

25X1

[redacted] 25X1

Ireland's Tight Budget Policy Continues

Dublin's 1986 budget, announced in late January, reaffirms the priority given to reducing the deficit while counting on faster world growth to balance the dampening effects on the domestic economy. Higher-than-expected spending has thwarted the government's deficit reduction goals in past years, and we believe the government will again fall short this year. Government policy calls for cuts of about $69 million in capital expenditures to bring the fiscal 1986 deficit from 8.2 percent to 7.4 percent of GNP. The revenue proposals feature a reduction in the highest tax rate from 60 to 58 percent and the abolition of a 1-percent income levy. To replace lost revenues, the VAT will be raised by 2 percentage points to 25 percent, life insurance interest will be taxed, and a withholding tax on bank deposits will be introduced. Dublin was reluctant to impose more austere measures that would slow growth and add to the 18-percent unemployment rate. The government is concerned about the impact of persistent high deficits on Ireland's $12 billion foreign debt, but calculates that lower international interest rates and a declining dollar will lower the foreign debt burden. [redacted] 25X1

Turkish Push for Entry Into EC

Prime Minister Ozal is taking steps to revive the issue of EC membership, long dormant because of Community concern about the economic costs of adding another developing Mediterranean economy and reservations about the strength of democratic institutions in Turkey. [redacted] 25X1 25X1 25X1 Ozal is expected to push for British support for quick Turkish entry when he visits London on 17-20 February. The Turks probably would be willing to put membership—which the EC committed itself to in the association agreement of 1964—on the back burner in return for some EC concessions. The Turks are particularly interested in obtaining the release of $540 million in EC aid—frozen after the 1980 military takeover in Turkey—and in the lifting of EC quotas on Turkish textiles. Ozal also may hope to use the prospect of eventual EC membership to maintain domestic support for his economic liberalization program, which requires painful sacrifices to enable Turkey to compete with its prospective EC partners. [redacted] 25X1

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Israeli Labor Unrest on the Upswing

The Israeli labor scene is heating up after six months of relative calm. A two-hour public-sector warning strike on 4 February and the ongoing sit-in demonstration by workers at the government-owned Israeli Shipyards indicate that labor's patience with the current economic austerity program is wearing thin. Labor unrest is likely to intensify over the next couple of months as negotiations on new public- and private-sector wage agreements begin and the Knesset votes on the budget for the fiscal year beginning 1 April. Labor leaders—already under fire for their passive behavior over the past eight months—will be under considerable pressure from workers to extract concessions from the government. A compromise that can maintain the government's commitment to austerity and also mollify the workers will be difficult to achieve. [redacted] 25X1

Less Developed Countries

Argentine Economic Package Unveiled

President Alfonsin's latest economic reform measures, announced last week, are likely to facilitate growth without inflation. He has pledged to sell six state-owned companies to the private sector, including the country's largest steel plant and two leading petrochemical concerns. In addition, he plans export programs based on tax credits for industrial exports and a land tax that will allow Argentina to reduce duties on agricultural exports. Demands by labor and the Peronists for a moratorium on foreign debt payments have been rejected. While most Argentines and foreign creditors will applaud moves to trim the public sector, labor will oppose the initiative—because of the scarcity of domestic capital, only foreign companies probably can afford to buy the inefficient state enterprises. The reforms, however, will not resolve Buenos Aires's dispute with the IMF over the budget deficit this fiscal year, which has delayed disbursements of new money originally slated for last December.

[redacted] 25X1

Surge in Brazilian Rice Purchases

Official announcements indicate Brazil will buy 1.7 million metric tons of rice at a cost of more than $400 million this year—more than eight times the average yearly amount imported during 1980-85. Purchases will be used to boost food supplies, keep food prices down in the wake of this year's drought-reduced corn crop, and build government stocks. Unusually large Brazilian purchases this year are likely to bolster sagging world rice prices somewhat and improve US sales prospects later in the year when US rice prices become more competitive as a result of recent legislation designed to spur farm exports. Brazil, for example, purchased about 250,000 tons of Asian rice in January at about half the cost of US rice of similar quality, according to USDA estimates. [redacted] 25X1

Ecuador Faces Sliding Oil Revenues

President Febres-Cordero is deeply troubled by the sudden plunge in oil prices. Foreign Minister Teran told the US Embassy that the President fears that the resulting recession and foreign payments problems endanger his experiment with free market economics and threaten to undo recently signed accords with international lenders. The Foreign Minister voiced concern that recession would strengthen domestic critics of the President's close relations with Washington and the IMF, and could result in a sweeping defeat for the President's coalition in June's congressional elections. Although Teran was clearly trying to "worst case" Ecuador's plight, the US Embassy estimates that real GDP growth this year is likely to fall far short of the government's 3.7-percent target—a target based on oil at $23 per barrel. Continuation of the current $19 per barrel price would result in no economic growth this year, but debt service would be manageable. Oil at $15 per barrel, however, would result in a 3-percent decline in GDP, and [redacted] the payments gap would exceed meager foreign exchange reserves, necessitating new borrowing. [redacted] 25X1 25X1

[redacted] 25X1

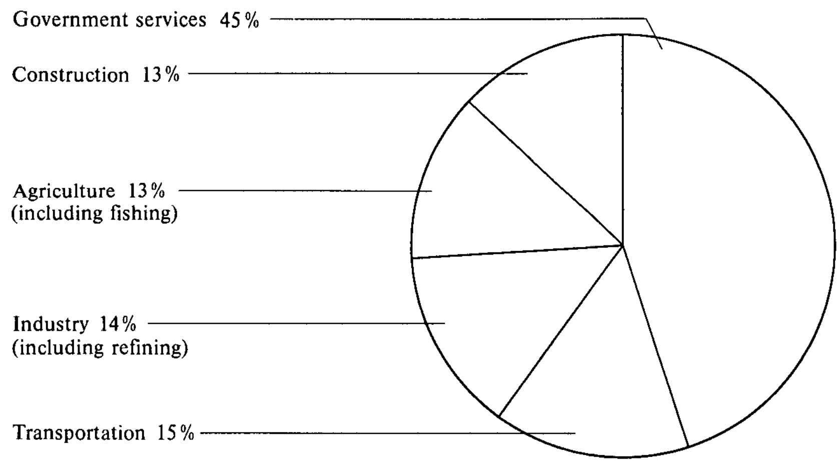
Impact of the Paraguayan Drought

The drought afflicting South America's southern region has had a disastrous impact on Paraguay's agriculturally based economy. The US Embassy estimates that the country's GDP could decline by as much as 8 percent this year, with the agricultural sector contracting at least 20 percent. Soybean and cotton crops, which alone account for 80 percent of export earnings, are down 39 and 42 percent, respectively. Low world prices for these commodities will add to the impact on export revenues. In addition, Asuncion's vastly overvalued exchange rate has further lowered farm prices for exporters. If world prices do not recover and the guarani remains overvalued, export revenues—$312 million in 1985—will probably not reach $200 million this year. This will probably result in a significant drawdown in foreign reserves and worsening international payments arrearages, which may force Asuncion to seek an agreement with the IMF and reschedule its debt with creditor banks. [redacted] 25X1

Tunisian Oil Crisis

The oil price plunge comes as a severe shock to Tunisia's economy, which faces growing austerity and a mounting debt service burden. The US Embassy estimates that $20 per barrel oil will increase the budget deficit by 10 percent, trim 2 percentage points off GDP growth, and increase the current account deficit by $50-100 million. A $15 per barrel price would almost double the impact. Moreover, [redacted] prospects are increasingly bleak for new commercial oil discoveries to help offset the declining oil prices. The regime's economic options are equally troubling. Further budget cuts will affect the ruling party's patronage structure and erode popular confidence in the regime's economic policies. Additional foreign borrowing almost certainly would be at higher rates than previously obtained and would push Tunisia closer to a politically troubling IMF stablization program. [redacted] 25X1 25X1

South Yemen: Composition of GDP



[redacted] 25X1

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Economic Impact of the South Yemeni Coup

Although the heavy fighting in Aden has damaged many residential and government buildings, [redacted] the warring factions avoided Aden's key economic facilities, including port facilities and electric power plants. The status of the 15,000-b/d refinery has not been determined. [redacted] no damage to the facility, but [redacted] Iran is seeking alternate buyers for crude originally destined for Aden because of the reportedly heavy damage suffered by the refinery. If the refinery was hit, its operations probably will be halted only temporarily. The death toll is likely to prove more serious. [redacted] 15,000 dead, a huge loss for a country of 2.2 million people. South Yemen's small educated class suffered disproportionately and probably were specific targets. Personnel will be hard to replace in an economy already short of skilled manpower. [redacted] 25X1 25X1 25X1 25X1

25X1

The new government has set up a committee to develop short- and long-term plans for restoration. Although the already-limited economy probably will continue to function, South Yemen has only $200 million in financial reserves 25X1 and will have to seek aid from the USSR and the Persian Gulf states. To retain their favored position, the Soviets probably will be the major donor. Moscow may also press for greater access to South Yemeni facilities and offer additional military and economic advisers. [redacted] 25X1

Tunisian Labor and Student Troubles

Government efforts to restrict activities of Tunisia's powerful labor and student movements could spark widespread violence between now and elections this fall. Proposed cuts in student subsidies and university enrollment, and government efforts to limit political activities on campus have led to numerous incidents of violence since school reopened on 8 January. Further episodes could occur if students become aware of government efforts to impede registration by voting-age youth for national elections this fall, [redacted] 25X1 25X1 Moreover, hard-line union members are closing ranks behind government-deposed labor boss Habib Achour for another confrontation over wages and union freedom. Coupled with the sharp decline in oil prices, the labor and student demands will tax the regime's ability to keep the lid on rising popular disgruntlement. [redacted] 25X1

Indians Protest Price Hikes

The continuing outcry following the 1 February price increases for key staples underscores the difficulty Prime Minster Gandhi faces in his effort to modernize India's economy. More than 3,500 demonstrators have been arrested or detained in New Delhi in the last two weeks, and a general strike was called by the leftist ruling party in the state of West Bengal on 11 February. Rice and wheat prices are to increase 6 to 11 percent, fertilizer 8 to 10 percent, and busfares in New Delhi 100 to 150 percent. Growing public resistance, combined with opposition within the ruling Congress Party, prompted a 5 February partial rollback for petroleum prices, initially raised 6 to 20 percent. These price hikes will fuel criticism that Gandhi's economic policies favor the rich and the middle class. Without these additional revenues designed to trim a serious budget deficit projected for the next fiscal year, Gandhi will be unable to implement the tax reforms and incentives intended to promote industrial modernization and foreign technology. [redacted] 25X1

Taiwan Pushing the Auto Sector

Taiwanese officials have designated auto manufacturing as a strategic industry and have implemented a wide range of policies to stimulate this sector. This is part of a larger government plan to hasten the transformation of Taiwan's exports from labor-intensive goods to capital intensive. Targets for auto exports include first Canada and then later the United States. Taiwan automakers are turning to foreign firms, especially the Japanese, to gain from their expertise and position themselves for future access to the export market. The Japanese are actively seeking equity participation in Taiwan's auto industry to soften the effects of the strengthening yen, to circumvent restrictions on Japanese autos, and to concentrate domestic production on the higher margin luxury market. US auto manufacturers are also actively researching equity participation in Taiwan's auto industry. Should Taiwan succeed in becoming a major auto exporter, the US-Taiwan trade gap—already a $3 billion surplus in Taiwan's favor—likely will widen. [redacted] 25X1

Brazil's Troubled Private Sector

Despite President Sarney's early pledge to reinvigorate Brazil's private sector, government policies are discouraging private capital expansion. According to the US Embassy, both domestic and foreign industrialists in Brazil are cutting back plans for investment in spite of very high capacity utilization rates. They cite a deteriorating cash flow position that stems from high real interest rates caused by continued large-scale government borrowing, increased corporate taxation, and widespread price controls. Businessmen also fear that the recent acceleration of inflation will prompt the government to impose even more rigorous price controls, reinforcing the profit squeeze. We believe that, unless the government alters its current policies, a stalled industrial recovery, in tandem with the drought impact on agricultural output, will result in a major decline in Brazil's GDP growth this year. [redacted] 25X1

Communist

Polish Worker Discontent

Growing worker dissatisfaction over longstanding economic problems may make First Secretary Jaruzelski more open to criticism from his party opponents in the campaign before the party congress this June. Party officials in three provinces recently reported that workers are increasingly unhappy about the rising cost of living and low wages. The government raised prices in December on a small number of consumer items without much advance notice, provoking rumors that more "surprise" hikes are in the works. Some workers have been upset over efforts by local factory directors to more closely link wages and productivity. The regime recently tried to appear responsive to worker concerns by backing away from earlier plans to extend the workweek, keeping the current system of work-free Saturdays. The regime's efforts, however, are unlikely to mollify the workers. Jaruzelski may hope that his resignation from the premiership and the appointment of new senior economic officials in November will divert blame from him for Poland's economic difficulties. He is likely to be disappointed. [redacted] 25X1

China's Foreign Exchange Reserves Puzzle

According to the People's Bank of China, China's foreign exchange reserves rose $1.7 billion in the third quarter of 1985 following a 12-month decline. Despite Beijing's claims that tightened controls on foreign exchange and trade were responsible for the turnaround, imports of both raw industrial materials and consumer goods remained at record or near-record levels through the third quarter, widening the trade deficit by $2.8 billion. [redacted] 25X1 however, the increase in reserves reflects a shift in accounting methods to include relatively liquid assets—such as US Treasury notes—in Beijing's definition of official reserves. Moreover, if a large portion of China's foreign exchange reserves is held in nondollar currencies, the strengthening of these currencies against the dollar may also have been a factor. Unless Beijing can substantially dampen imports, the growth of reserves—which now total $12.6 billion—will be shortlived. [redacted] 25X1

China To Increase Tungsten Sales to the USSR

Beijing late last year agreed to increase sales of tungsten to the Soviet Union in 1986. Although details on the volume of trade are unavailable, China has been a major Soviet supplier of tungsten materials for years. No agreement between the two was ever reached on the level of 1985 Chinese deliveries. As a result, China, the world's leading producer, sold its low-priced tungsten ores and products on the international market, provoking criticism from other producing countries for causing a decline in prices. 25X1

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Economic & Energy Indicators

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Industrial Production

Percent change from previous period seasonally adjusted at an annual rate

	1981	1982	1983	1984	1985					
					1st Qtr	2d Qtr	3d Qtr	Oct	Nov	Dec
United States	2.6	-7.2	5.9	11.6	2.1	1.3	2.1	6.5	7.0	9.0
Japan	1.0	0.4	3.5	11.1	-2.6	11.2	-0.4	12.5	11.1	7.1
West Germany	-2.3	-3.2	0.3	2.4	-2.4	12.2	0.8	21.8	11.9	
France	-2.6	-1.5	1.1	2.3	-3.0	4.1	7.3	9.4	30.4	
United Kingdom	-3.9	2.1	3.9	1.2	11.1	7.5	0.6	0	15.2	
Italy	-1.6	-3.1	-3.2	3.1	7.4	1.1	-2.6	-32.9	31.8	
Canada	0.5	-10.0	5.3	8.8	0.7	4.5	10.4	10.2	10.1	

Gross National Product [a]

Percent change from previous period seasonally adjusted at an annual rate

	1981	1982	1983	1984	1985			
					1st Qtr	2d Qtr	3d Qtr	4th Qtr
United States	2.5	-2.1	3.4	6.6	3.7	1.1	3.0	2.4
Japan	4.1	3.1	3.3	5.0	1.7	5.8	2.6	
West Germany	-0.2	-1.0	1.6	2.7	-4.6	5.6	9.2	
France	0.2	1.8	0.7	1.6	-0.9	3.6	1.2	
United Kingdom	-1.4	1.9	3.3	2.4	3.0	4.9	1.1	
Italy	0.2	-0.5	-0.4	2.6	3.7	3.3	0.8	
Canada	3.3	-4.4	3.3	5.0	3.6	3.9	6.7	

[a] Constant market prices.

Consumer Prices

Percent change from previous period seasonally adjusted at an annual rate

	1981	1982	1983	1984	1985			1986
					Year	3d Qtr	4th Qtr	Jan
United States	10.3	6.2	3.2	4.3	3.5	2.4	4.1	
Japan	4.9	2.6	1.8	2.3	2.0	2.1	2.2	1.9
West Germany	6.0	5.3	3.3	2.4	2.2	0.1	1.0	0.6
France	13.3	12.0	9.5	7.7	5.8	4.4	3.1	
United Kingdom	11.9	8.6	4.6	5.0	6.1	3.1	3.0	
Italy	19.3	16.4	14.9	10.6	8.6	7.3	6.7	
Canada	12.5	10.8	5.8	4.3	4.0	3.2	4.4	

Money Supply, M-1 [a]

Percent change from previous period seasonally adjusted at an annual rate

	1981	1982	1983	1984	1985					
					1st Qtr	2d Qtr	3d Qtr	4th Qtr	Nov	Dec
United States [b]	7.1	6.6	11.2	6.9	10.9	10.6	16.0	9.1	14.2	14.0
Japan	3.7	7.1	3.0	2.9	10.4	–0.3	2.9	0.9	8.4	23.0
West Germany	1.1	3.6	10.3	3.3	1.4	–0.4	8.1	14.6	–11.2	43.8
France	12.2	13.9	10.0	8.1	12.9	7.3	13.7			
United Kingdom	NA	NA	13.0	14.7	1.2	32.4	15.4	25.1	34.1	21.2
Italy	11.2	11.6	15.1	12.3	18.0	–0.3	11.5			
Canada	3.8	0.7	10.2	3.3	3.8	3.5	13.3	15.1	13.5	–6.9

[a] Based on amounts in national currency units.
[b] Including M1-A and M1-B.

Unemployment Rate [a]

Percent seasonally adjusted

	1981	1982	1983	1984	1985					1986
					Year	2d Qtr	3d Qtr	4th Qtr	Dec	Jan
United States	7.5	9.6	9.4	7.4	7.1	7.2	7.0	6.9	6.8	6.6
Japan	2.2	2.4	2.7	2.7	2.6	2.5	2.6	2.8	2.9	
West Germany	5.6	7.7	9.2	9.1	9.3	9.4	9.4	9.2	9.1	9.0
France	7.6	8.4	8.6	9.6	10.2	9.9	10.2	10.5	10.5	10.5
United Kingdom	10.0	11.6	12.4	12.6	13.1	13.1	13.2	13.2	13.2	13.2
Italy	8.4	9.1	9.9	10.4		10.2	10.6			
Canada	7.5	11.1	11.9	11.3	10.5	10.5	10.3	10.2	10.0	9.8

[a] Unemployment rates for France are estimated.

Foreign Trade [a]

Billion US $, f.o.b.

	1981	1982	1983	1984	1985				
					1st Qtr	2d Qtr	3d Qtr	4th Qtr	Dec
United States [b]									
Exports	233.5	212.3	200.7	217.6	55.7	52.6	52.6	52.4	17.0
Imports	261.0	244.0	258.2	325.6	84.4	86.4	84.5	90.8	32.9
Balance	−27.5	−31.6	−57.5	−108.0	−28.7	−33.8	−31.9	−38.4	−15.9
Japan									
Exports	149.6	138.2	145.5	168.1	40.5	42.6	43.6	47.3	15.8
Imports	129.5	119.6	114.0	124.1	28.9	29.5	29.4	30.3	9.9
Balance	20.1	18.6	31.4	44.0	11.6	13.1	14.4	17.0	5.9
West Germany									
Exports	175.4	176.4	169.5	171.9	41.1	43.3	48.8	51.0	17.4
Imports [c]	163.4	155.3	152.9	153.1	36.4	37.2	41.7	43.6	14.6
Balance	11.9	21.1	16.6	18.8	4.6	6.2	7.1	7.4	2.8
France									
Exports	106.3	96.4	95.1	97.5	22.5	24.4	26.1	28.8	9.6
Imports	115.6	110.5	101.0	100.3	23.6	24.7	26.8	29.2	10.0
Balance	−9.3	−14.0	−5.9	−2.8	−1.1	−0.4	−0.7	−0.4	−0.4
United Kingdom									
Exports	102.5	97.1	92.1	93.7	22.7	25.4	25.5	27.3	9.3
Imports	94.6	93.1	93.7	99.1	24.1	25.7	26.2	27.3	9.1
Balance	7.9	4.0	−1.6	−5.3	−1.4	−0.3	−0.7	0	0.2
Italy									
Exports	75.4	73.9	72.8	73.5	17.7	18.2	20.3		
Imports	91.2	86.7	80.6	84.4	21.6	21.8	21.2		
Balance	−15.9	−12.8	−7.9	−10.9	−3.9	−3.6	−1.0		
Canada									
Exports	70.5	68.5	73.7	86.5	22.0	21.9	21.9		
Imports	64.4	54.1	59.3	70.6	18.0	18.7	19.6		
Balance	6.1	14.4	14.4	15.9	4.0	3.2	2.2		

[a] Seasonally adjusted.
[b] Imports are customs values.
[c] Imports are c.i.f.

Current Account Balance [a]

Billion US $

	1981	1982	1983	1984	1985					
					1st Qtr	2d Qtr	3d Qtr	4th Qtr	Nov	Dec
United States	6.3	−8.1	−46.0	−107.4	−24.2	−27.7	−30.5			
Japan	4.8	6.9	20.8	35.0	6.8	13.3	13.1	16.1	4.5	6.8
West Germany	−6.8	3.3	4.2	6.0	1.7	3.1	2.1	6.9	1.9	2.7
France	−4.7	−12.1	−4.9	0.9	−0.7	0.6	0			
United Kingdom	15.3	8.5	4.5	1.6	−0.5	1.8	1.6	2.0	0.4	1.0
Italy	−8.6	−5.7	0.6	−3.2	−2.9					
Canada	−5.0	2.1	1.4	1.9	0.5	0	−1.1			

[a] Seasonally adjusted; converted to US dollars at current market rates of exchange.

Export Prices in US $

Percent change from previous period at an annual rate

	1981	1982	1983	1984	1985					
					1st Qtr	2d Qtr	3d Qtr	Oct	Nov	Dec
United States	9.2	1.5	1.0	1.4	0.3	1.9	2.5	6.4	0.6	
Japan	5.5	6.4	2.4	0.2	-11.9	14.1	5.9	123.0	28.0	
West Germany	14.9	2.8	3.2	7.1	18.8	26.8	37.5	124.9	23.5	50.9
France	12.0	5.5	4.8	-2.9	-14.3	28.3	35.7	80.6	10.9	
United Kingdom	NA	NA	6.2	5.1	-16.2	57.1	29.2	47.5	16.6	4.4
Italy	7.8	3.0	4.4	5.2	13.4	21.6	19.2			
Canada	3.9	2.0	1.3	-3.7	0.2	-7.0	8.1	14.5	3.8	

Import Prices in US $

Percent change from previous period at an annual rate

	1981	1982	1983	1984	1985					
					1st Qtr	2d Qtr	3d Qtr	Oct	Nov	Dec
United States	5.3	2.0	3.7	1.7	9.6	-0.6	0	0.3	12.3	
Japan	3.6	7.4	5.0	2.8	10.9	3.1	2.6	38.5	9.1	
West Germany	8.6	4.7	5.2	4.8	13.2	19.5	19.4	82.3	15.9	31.3
France	7.8	7.2	7.0	3.8	12.5	15.1	18.6	119.2	31.2	
United Kingdom	NA	NA	5.7	4.6	-15.4	46.1	16.4	44.7	0.3	12.1
Italy	1.0	5.3	6.6	3.7	-9.1	23.0	5.5			
Canada	8.7	1.1	3.3	0.1	-4.3	2.4	9.0	6.1	4.8	

Exchange Rate Trends

Percent change from previous period at an annual rate

	1981	1982	1983	1984	1985 1st Qtr	1985 2d Qtr	1985 3d Qtr	1985 Nov	1985 Dec
Trade-Weighted									
United States	10.5	10.6	5.8	9.1	26.0	-11.3	14.9		
Japan	9.3	-5.7	10.4	6.2	0.9	7.8	11.1		
West Germany	-2.1	7.0	5.8	1.0	-0.2	2.1	8.5		
France	5.1	-6.1	-4.7	-2.1	0.9	4.8	9.9		
United Kingdom	2.5	-2.1	-5.0	-2.5	-10.5	39.9	16.7		
Italy	-9.2	5.1	-1.6	-3.1	-1.3	-10.5	9.7		
Canada	0.3	0.2	2.3	2.3	-2.1	-10.2	4.0		
Dollar Cost of Foreign Currency									
Japan	2.7	-12.9	4.6	0	-19.6	9.9	18.6	45.6	7.2
West Germany	-24.6	-7.2	-5.2	-11.5	-28.0	19.0	27.8	20.6	34.1
France	-28.7	-20.8	-15.9	-14.7	-26.7	19.6	28.0	21.1	29.5
United Kingdom	-13.2	-13.4	13.3	-11.9	-28.6	59.9	44.5	17.6	3.5
Italy	-32.8	-18.8	12.3	-15.6	-30.3	9.5	15.6	19.0	26.2
Canada	-2.5	-2.9	0.1	-5.1	-10.5	-5.0	2.7	8.7	17.9

Money Market Rates

Percent

	1981	1982	1983	1984	1985 Year	1985 1st Qtr	1985 2d Qtr	1985 3d Qtr	1985 4th Qtr
United States 90-day certificates of deposit, secondary market	16.24	12.49	9.23	10.56	8.16	8.76	8.04	7.90	7.93
Japan loans and discounts (2 months)	7.79	7.23	NA	6.66		6.55	6.54	6.50	
West Germany interbank loans (3 months)	12.19	8.82	5.78	5.96	5.40	6.12	5.80	4.86	4.81
France interbank money market (3 months)	15.47	14.68	12.51	11.74	9.97	10.64	10.32	9.81	9.10
United Kingdom sterling interbank loans (3 months)	13.85	12.24	10.12	9.91	12.21	12.98	12.61	11.67	11.60
Italy Milan interbank loans (3 months)	20.13	20.15	18.16	15.91	14.95	15.78	15.12	14.37	14.52
Canada 9.40 finance paper (3 months)	18.46	14.48	9.53	11.30	9.71	10.59	9.87	9.32	9.10
Eurodollars 3-month deposits	16.87	13.25	9.69	10.86	8.41	9.04	8.29	8.14	8.15

Agricultural Prices

	1981	1982	1983	1984	1985					1986
					Year	1st Qtr	2d Qtr	3d Qtr	4th Qtr	Jan
Bananas Fresh imported, (Total world, $ per metric ton)	214.0	217.0	232.0	243.0	110.3	110.4	111.6	110.9	108.1	NA
Beef (¢ per pound)										
Australia (Boneless beef, f.o.b. US Ports)	112.1	108.4	110.7	101.1	96.6	100.2	93.3	93.6	99.3	99.8
United States (Wholesale steer beef, midwest markets)	100.0	101.4	97.6	100.9	90.7	96.6	81.0	80.4	96.1	95.3
Cocoa (¢ per pound)	89.8	74.3	92.1	106.2	98.7	99.2	96.4	98.4	100.8	1.60
Coffee ($ per pound)	1.28	1.40	1.32	1.44	1.43	1.44	1.42	1.33	1.52	2.06
Corn (US #3 yellow, c.i.f. Rotterdam, $ per metric ton)	150	123	148	150	125	133	133	118	117	119
Cotton (World Cotton Prices, "A" index, c.i.f. Osaka, US ¢/lb.)	72.69	74.48	85.71	63.91	57.87	62.27	63.78	56.76	48.68	52.13
Palm Oil (United Kingdom 5% bulk, c.i.f., $ per metric ton)	571	445	502	730	501	610	606	417	369	367
Rice ($ per metric ton)										
US (No. 2, milled, 4% c.i.f. Rotterdam)	632	481	514	514	484	496	496	481	465	450
Thai SWR (100% grade B c.i.f. Rotterdam)	573	362	339	310	249	254	243	236	263	238
Soybeans (US #2 yellow, c.i.f. Rotterdam, $ per metric ton)	288	244	282	283	225	240	236	213	208	217
Soybean Oil (Dutch, f.o.b. ex-mill, $ per metric ton)	507	447	527	727	571	654	658	518	454	471
Soybean Meal (US, c.i.f. Rotterdam $ per metric ton)	252	219	238	197	157	157	146	152	174	178
Sugar (World raw cane, f.o.b. Caribbean Ports, spot prices ¢ per pound)	16.93	8.42	8.49	5.18	4.04	3.69	2.96	4.21	5.30	4.87
Tea Average Auction (London) (¢ per pound)	91.0	89.9	105.2	156.6	90.0	126.9	82.8	72.3	78.1	80.5
Wheat (US #2. DNS c.i.f. Rotterdam, $ per metric ton)	210	187	183	182	169	178	169	154	175	175
Food Index [a] (1980=100)	88	78	86	92	81	83	79	76	84	95

[a] The food index is compiled by *The Economist* for 14 food commodities which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

Industrial Materials Prices

	1981	1982	1983	1984	1985					1986
					Year	1st Qtr	2d Qtr	3d Qtr	4th Qtr	Jan
Aluminum (¢ per pound)										
Major US producer	77.3	76.0	77.7	81.0	81.0	81.0	81.0	81.0	81.0	81.0
LME cash	57.4	44.9	65.1	56.8	47.2	49.3	49.3	45.6	44.6	50.6
Chrome Ore (South Africa chemical grade, $ per metric ton)	53.0	50.9	50.0	50.0	43.9	49.9	44.7	41.0	40.0	40.0
Copper [a] (bar, ¢ per pound)	79.0	67.1	72.0	62.4	64.2	62.1	67.6	64.5	62.6	64.2
Gold ($ per troy ounce)	460.0	375.5	424.4	360.0	317.2	300.0	319.8	323.2	326.0	343.1
Lead [a] (¢ per pound)	32.9	24.7	19.3	20.0	17.7	17.3	17.3	18.3	17.8	16.7
Manganese Ore (48% Mn, $ per long ton)	82.1	79.9	73.3	69.8	68.4	69.7	68.4	68.4	67.2	67.2
Nickel ($ per pound)										
Cathode major producer	3.5	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2
LME Cash	2.7	2.2	2.1	2.2	2.2	2.2	2.5	2.2	1.9	1.8
Platinum ($ per troy ounce)										
Major producer	475.0	475.0	475.0	475.0	475.0	475.0	475.0	475.0	475.0	475.0
Metals week, New York dealers' price	446.0	326.7	422.6	358.2	291.0	269.3	275.4	294.0	325.5	362.6
Rubber (¢ per pound)										
Synthetic [b]	47.5	45.7	44.0	44.4	44.1	46.6	45.7	42.4	41.7	NA
Natural [c]	56.8	45.4	56.2	49.6	42.0	42.0	41.5	42.4	41.8	40.0
Silver ($ per troy ounce)	10.5	7.9	11.4	8.1	6.1	5.9	6.3	6.1	6.1	NA
Steel Scrap [d] ($ per long ton)	92.0	63.1	73.2	86.4	74.4	83.7	71.9	72.7	69.2	NA
Tin [a] (¢ per pound)	641.4	581.6	590.9	556.6	543.2	501.1	541.3	571.0	559.4	NA
Tungsten Ore (contained metal, $ per metric ton)	18,097	13,426	10,177	10,243	10,656	11,515	10,974	10,648	9,488	8,588
US Steel (finished steel, composite, $ per long ton)	543.5	567.3	590.2	611.6	617.8	617.8	617.8	617.8	617.8	NA
Zinc [a] (¢ per pound)	38.4	33.7	34.7	41.5	35.4	40.0	39.5	33.4	28.6	29.4
Lumber Index [e] (1980=100)	95	84	114	105	NA	100	107	103	NA	NA
Industrial Materials Index [f] (1980=100)	85	71	82	76	69	70	72	69	66	66

[a] Approximates world market price frequently used by major world producers and traders, although only small quantities of these metals are actually traded on the LME.
[b] S-type styrene, US export price.
[c] Quoted on New York market.
[d] Average of No. 1 heavy melting steel scrap and No. 2 bundles delivered to consumers at Pittsburgh, Philadelphia, and Chicago.
[e] This index is compiled by using the average of 11 types of lumber whose prices are regarded as bellwethers of US lumber construction costs.
[f] The industrial materials index is compiled by *The Economist* for 18 raw materials which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

World Crude Oil Production Excluding Natural Gas Liquids

Thousand b/d

	1980	1981	1982	1983	1984	1985[a]				
						1st Qtr	2d Qtr	3d Qtr	Oct	Nov
World	**59,793**	**56,217**	**53,514**	**53,098**	**54,187**	**53,462**	**52,380**	**52,343**	**54,682**	
Non-Communist countries	**45,243**	**41,602**	**38,810**	**38,228**	**39,257**	**38,672**	**37,610**	**37,588**	**39,800**	
Developed countries	12,859	12,886	13,276	13,864	14,302	14,704	14,617	14,643	14,845	
United States	8,597	8,572	8,658	8,680	8,735	8,871	8,972	8,954	8,961	8,901
Canada	1,424	1,285	1,270	1,356	1,411	1,463	1,445	1,444	1,450	
United Kingdom	1,619	1,811	2,094	2,299	2,535	2,660	2,471	2,399	2,560	
Norway	528	501	518	614	700	719	728	823	862	
Other	691	717	736	915	921	991	1,001	1,023	1,012	
Non-OPEC LDCs	5,443	6,036	6,633	6,823	7,515	7,733	7,802	7,922	7,911	
Mexico	1,936	2,321	2,746	2,666	2,746	2,711	2,724	2,738	2,749	2,679
Egypt	595	598	665	689	827	877	875	890	847	
Other	2,912	3,117	3,222	3,468	3,942	4,145	4,203	4,294	4,315	
OPEC	26,941	22,680	18,901	17,541	17,440	16,235	15,191	15,023	17,044	17,580
Algeria	1,020	803	701	699	638	660	634	616	650	680
Ecuador	204	211	211	236	253	274	271	282	280	290
Gabon	175	151	154	157	152	150	150	153	160	160
Indonesia	1,576	1,604	1,324	1,385	1,466	1,152	1,167	1,203	1,110	1,200
Iran	1,662	1,381	2,282	2,492	2,187	2,097	2,299	2,335	2,300	2,200
Iraq	2,514	993	972	922	1,203	1,255	1,340	1,482	1,650	1,700
Kuwait[b]	1,389	947	663	881	912	914	800	800	850	950
Libya	1,830	1,137	1,183	1,076	1,073	1,051	1,057	933	1,200	1,200
Neutral Zone[c]	544	370	317	390	410	480	333	306	414	400
Nigeria	2,058	1,445	1,298	1,241	1,393	1,590	1,351	1,214	1,680	1,760
Qatar	471	405	328	295	399	292	297	312	300	300
Saudi Arabia[b]	9,631	9,625	6,327	4,867	4,444	3,659	2,731	2,564	3,700	4,000
UAE	1,702	1,500	1,248	1,119	1,097	1,123	1,120	1,193	1,195	1,185
Venezuela	2,165	2,108	1,893	1,781	1,813	1,538	1,641	1,630	1,555	1,555
Communist countries	**14,550**	**14,615**	**14,704**	**14,870**	**14,930**	**14,790**	**14,770**	**14,755**	**14,882**	
USSR	12,030	12,180	12,250	12,330	12,230	11,920	11,870	11,866	11,962	
China	2,113	2,024	2,044	2,120	2,280	2,450	2,480	2,474	2,500	2,500
Other	407	411	410	420	420	420	420	415	420	420

[a] Preliminary.
[b] Excluding Neutral Zone production, which is shown separately.
[c] Production is shared equally between Saudi Arabia and Kuwait.

Big Seven: Inland Oil Consumption

Thousand b/d

	1981	1982	1983	1984	1985					
					1st Qtr	2d Qtr	3d Qtr	4th Qtr	Nov	Dec
United States [a]	16,058	15,296	15,184	15,708	15,807	15,452	15,562	15,457	15,411	16,100
Japan	4,444	4,204	4,193	4,349	4,710	3,577	3,833			
West Germany	2,120	2,024	2,009	2,012	1,993	2,034	2,242			
France	1,744	1,632	1,594	1,531	1,755	1,342	1,310	1,556	1,596	1,504
United Kingdom	1,325	1,345	1,290	1,624	1,881	1,208	1,230			
Italy [b]	1,705	1,618	1,594	1,513	1,718	1,281	1,417		1,644	
Canada	1,617	1,454	1,354	1,348	1,327	1,285	1,367			

[a] Including bunkers, refinery fuel, and losses.
[b] Principal products only prior to 1981.

Big Seven: Crude Oil Imports

Thousand b/d

	1981	1982	1983	1984	1985					
					1st Qtr	2d Qtr	3d Qtr	4th Qtr	Nov	Dec
United States	4,406	3,488	3,329	3,402	2,545	3,397	3,171	3,662	4,053	3,593
Japan	3,919	3,657	3,567	3,664	3,777	3,118	3,001		3,233	
West Germany	1,591	1,451	1,307	1,335	1,419	1,260	1,248			
France	1,804	1,596	1,429	1,395	1,578	1,212	1,421		1,527	
United Kingdom	736	565	456	482	534	518	453			
Italy	1,816	1,710	1,532	1,507	1,453	1,328	1,166			
Canada	521	334	247	244	188	216	162			

OPEC: Crude Oil Official Sales Price [a]

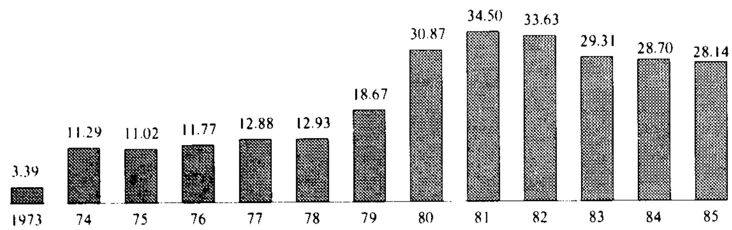
US $ per barrel

	1980	1981	1982	1983	1984	1985				
						Year	1st Qtr	2d Qtr	3d Qtr	4th Qtr
OPEC average [b]	30.87	34.50	33.63	29.31	28.70	28.14	28.25	28.11	28.13	28.15
Algeria 44° API 0.10% sulfur	37.59	39.58	35.79	31.30	30.50	29.66	30.15	29.50	29.50	29.50
Ecuador 28° API 0.93% sulfur	34.42	34.50	32.96	27.59	27.50	26.41	26.82	26.50	26.15	26.15
Gabon 29° API 1.26 % sulfur	31.09	34.83	34.00	29.82	29.00	28.09	28.35	28.00	28.00	28.00
Indonesia 35° API 0.09% sulfur	30.55	35.00	34.92	29.95	29.53	28.62	28.88	28.53	28.53	28.53
Iran										
Light 34° API 1.35% sulfur	34.54	36.60	31.05	28.61	28.00	28.13	28.38	28.05	28.05	28.05
Heavy 31° API 1.60% sulfur	33.60	35.57	29.15	27.44	27.10	27.37	27.41	27.35	27.35	27.35
Iraq [c] 35° API 1.95% sulfur	30.30	36.66	34.86	30.32	29.43	28.27	28.78	28.43	28.43	28.43
Kuwait 31° API 2.50% sulfur	29.84	35.08	32.30	27.68	27.30	27.30	27.30	27.30	27.30	27.30
Libya 40° API 0.22% sulfur	36.07	40.08	35.69	30.91	30.40	30.40	30.40	30.40	30.40	30.40
Nigeria 34° API 0.16% sulfur	35.50	38.48	35.64	30.22	29.12	28.34	28.24	28.37	28.37	28.37
Qatar 40° API 1.17% sulfur	37.12	34.56	29.95	29.49	28.48	28.10	28.10	28.10	28.10	28.10
Saudi Arabia										
Berri 39° API 1.16% sulfur	30.19	34.04	34.68	29.96	29.52	28.20	28.48	28.11	28.11	28.11
Light 34° API 1.70% sulfur	28.67	32.50	34.00	29.46	29.00	28.08	28.32	28.00	28.00	28.00
Medium 31° API 2.40% sulfur	28.12	31.84	32.40	27.86	27.40	27.32	27.48	27.40	27.20	27.20
Heavy 27° API 2.85% sulfur	27.67	31.13	31.00	26.46	26.00	26.25	26.50	26.50	26.00	26.00
UAE 39° API 0.75% sulfur	31.57	36.42	34.74	30.38	29.56	28.24	28.52	28.15	28.15	28.15
Venezuela 26° API 1.52% sulfur	28.44	32.88	32.88	28.69	27.88	27.37	27.69	27.60	27.10	27.10

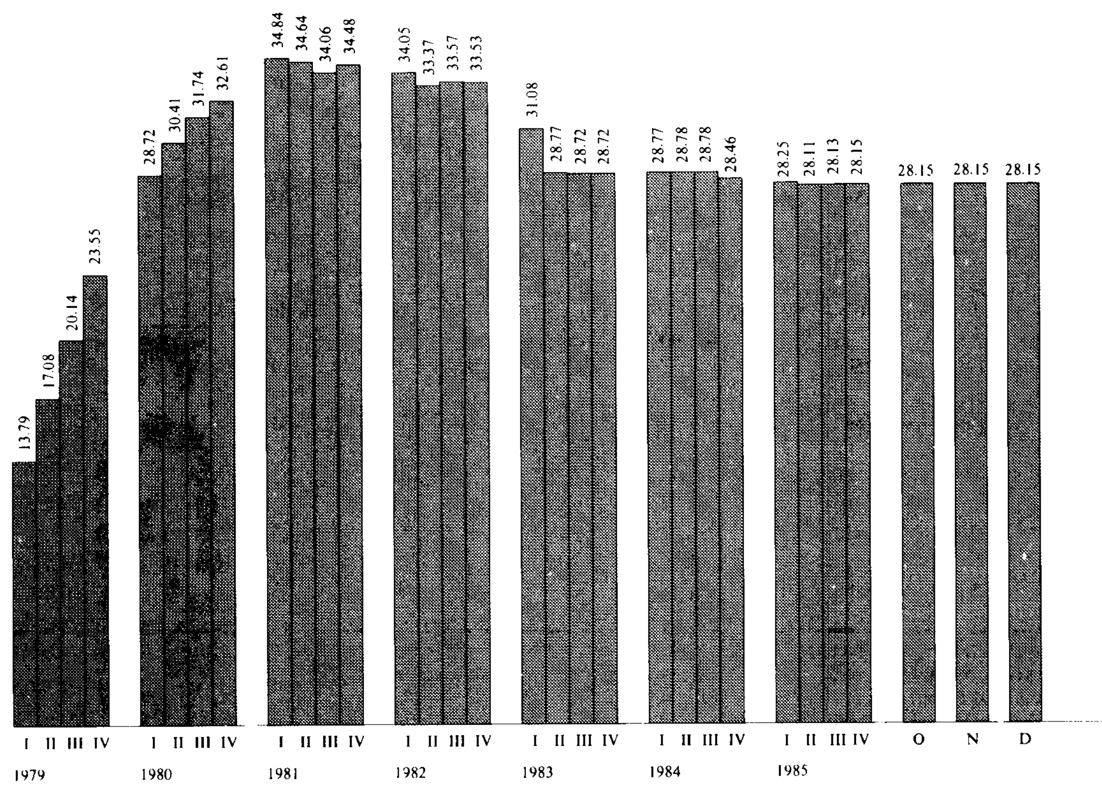
[a] F.o.b. prices set by the government for direct sales and, in most cases, for the producing company buy-back oil.
[b] Weighted by the volume of production.
[c] Beginning in 1981 the price of Kirkuk (Mediterranean) is used in calculating the OPEC average official sales price.

OPEC: Average Crude Oil Sales Price

US $ per barrel



Annual average



The 1973 price is derived from posted prices, not official sales prices.

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